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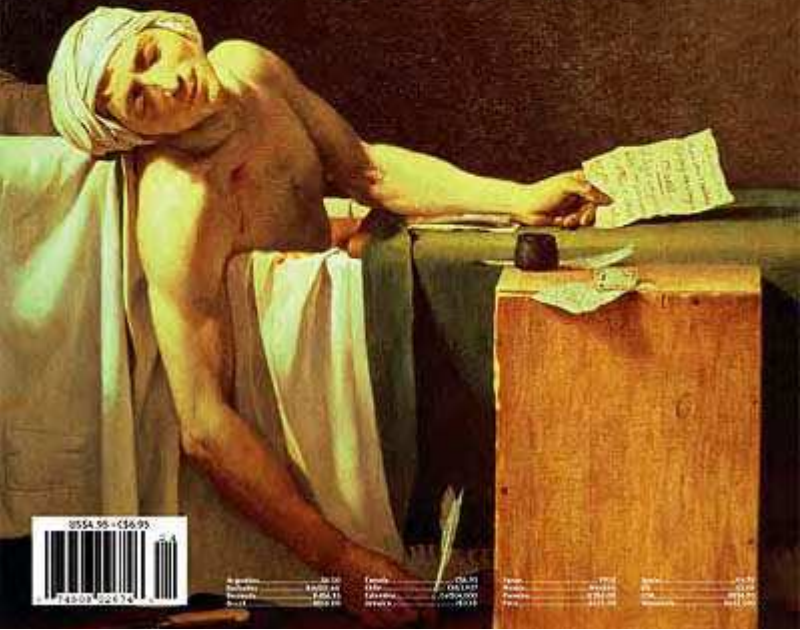
The Europe that died

And the one to save



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Politics this week

Jun 2nd 2005
From The Economist print edition

AP

After the vote

French voters decisively rejected the **European Union constitution** in a referendum on May 29th, by a 55-45% margin. Three days later, Dutch voters followed suit, voting no by a margin of 62-38%. Europe's political leaders said forlornly that ratification of the constitution should continue anyway, but more realistic analysts declared the constitution dead.

See article

The **French president**, Jacques Chirac, reacted to his referendum defeat by sacking the prime minister, Jean-Pierre Raffarin. The new prime minister is Dominique de Villepin, a former foreign minister and Chirac acolyte. Mr Chirac also felt obliged to bring back into the government his great rival, Nicolas Sarkozy, boss of the ruling UMP party.

See article

Angela Merkel was formally chosen as the opposition candidate to be **chancellor of Germany**. Ms Merkel is now the firm favourite to win the snap election sought by Chancellor Gerhard Schröder, which will probably take place in September.

See article

After a painfully drawn-out reading of the verdict, a Russian court found **Mikhail Khodorkovsky**, former boss of the oil company Yukos, guilty of fraud and tax evasion and sentenced him to nine years in prison. Most observers think Mr Khodorkovsky's real crime was to cross Russia's president, Vladimir Putin.

Royal circles

Rumours circulated in Saudi Arabia's capital, Riyadh, that the country's frail monarch, **King Fahd**, who is probably 82 years old, was close to death after being taken to hospital, apparently with pneumonia. His condition was later said to be stable. Crown Prince Abdullah is poised to take over formally, having run the kingdom since his half-brother was incapacitated by a stroke in 1995.

The first round of a four-stage general election in **Lebanon** was won in a landslide by lists of candidates endorsed by Saad Hariri, a son of Lebanon's assassinated former prime minister, Rafik Hariri. Four days later, a car bomb in east Beirut killed Samir Qassir, a prominent journalist opposed to pro-Syrian politicians.

Iraq's president, Jalal Talabani, said he expected the trial of **Saddam Hussein** on charges of “crimes against humanity” to start within two months.

A **South African** businessman, Schabir Shaik, was found guilty of corruption involving an arms deal and for soliciting a bribe on behalf of the vice-president (and possible next president), Jacob Zuma. Meanwhile, the ruling African National Congress responded to separate allegations that it had diverted cash from a state-owned oil company to its own coffers ahead of last year's election by gagging a newspaper that was about to print further details.

See article

Police in **Zimbabwe** were reported to have arrested more than 22,000 people and made many more homeless in an effort to shut down illegal stores and black-market trading, and to stop people fleeing from the countryside, where, according to the UN, at least 3m are threatened with starvation.

It's good to talk

China and **Japan** held a round of talks in Beijing in an attempt to resolve a boundary dispute in the East China Sea, where each has been exploring oil and gas fields. The talks came a week after one of China's vice-premiers, Wu Yi, cancelled a meeting with the Japanese prime minister, Junichiro Koizumi, causing much anger in Japan.

At least 20 people were killed in a suicide-bomb attack at a mosque in the city of Kandahar in southern **Afghanistan**.

AP

Six employees of Kentucky Fried Chicken were killed in **Pakistan's** commercial capital, Karachi, when rioting Shia youths set their store on fire. The incident followed an attack by Sunni militants on a Shia mosque. Pakistan's opposition criticised General Pervez Musharraf, the country's military president, for failing to stop sectarian violence.

America deployed 15 stealth fighters to South Korea as concerns about **North Korea's** nuclear plans grew. South Korea's national security adviser, Kwon Jin-ho, and chief nuclear negotiator, Song Min-soon, flew to Washington to explore ways of restarting six-party talks on the crisis.

Heading for a slowdown?

In a disappointment for President Luiz Inácio Lula da Silva, new figures showed that **Brazil's** economic recovery is slowing, with GDP in the first quarter up only 0.3% on the previous quarter.

See article

Protests continued in **Bolivia** against the government of President Carlos Mesa. Demonstrators demanding the nationalisation of the oil and gas industry prevented legislators from reaching the Congress building, thus thwarting a debate on a proposal for autonomy for the country's richer eastern provinces.

A leader of **Colombia's** far-right paramilitary groups, Diego Murillo, gave himself up to the police. The government's decision to arrest Mr Murillo, who faces drug trafficking charges in the United States, came after criticism that it is adopting an over-lenient stance in peace talks with the paramilitaries.

Enrique Iglesias, the long-serving president of the **Inter-American Development Bank**, was named to head a new permanent secretariat for the Ibero-American summits, which bring together Latin American countries and Spain and Portugal. He will leave the Bank in September.

See article

Patently

George Bush dismissed **Amnesty International's** recent comparison of Guantánamo Bay with a gulag as “absurd”. The human-rights group responded that Mr Bush had failed to address “longstanding concerns” over the detention of terrorist suspects there.

The identity of “Deep Throat”, a central figure in the **Watergate** scandal that eventually brought down Richard Nixon in 1974, was finally revealed. Mark Felt, the number two at the FBI at the time, fed information to the *Washington Post*.

AP

See article

State legislators in Massachusetts overrode a veto by governor Mitt Romney and approved a bill that removes certain restrictions from **stem-cell research** in the state. Connecticut's legislature approved a similar measure.

A federal jury in Los Angeles found David Rosen, the former finance director of **Hillary Clinton's** successful run for the Senate, not guilty of breaking campaign-finance laws in connection with a Hollywood fundraiser in 2000.

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Business this week

Jun 2nd 2005
From The Economist print edition

Reversed and remanded

America's Supreme Court overturned the 2002 conviction of **Arthur Andersen** for obstructing justice in an investigation into the collapse of Enron. The court ruled that instructions given to the jury in the first trial did not make it clear that the former Big Five accountancy firm had to be found to have knowingly subverted a government investigation when it shredded documents relating to its audit of the now bankrupt energy trader; Arthur Andersen claimed it was merely carrying out company policy in discarding unwanted files.

See article

American International Group filed its annual report, after three previous delays, and restated net profit for the past five years, reducing it by $3.9 billion. Last week, the state of New York brought a civil lawsuit against the insurance giant and its former chief executive and chief financial officer, accusing them of manipulating financial statements. Criminal charges are also being considered.

William Donaldson, the chairman of America's **Securities and Exchange Commission**, said that he would step down at the end of this month. The Bush administration nominated Christopher Cox, a congressman, as his successor.

See article

Fannie Mae, the larger of America's two giant mortgage companies, named Daniel Mudd as its chief executive. Mr Mudd, formerly chief operating officer, has been in temporary charge since Franklin Raines was forced to quit in December.

It was confirmed that **UniCredit**, Italy's largest bank, is seeking to buy **HVB Group**, Germany's second-largest, in a deal estimated to be worth *euro*16.0 billion ($19.6 billion).

See article

Just-in-time delivery

Microsoft submitted proposals to the European Commission on how it would comply with last year's antitrust ruling, beating a deadline set last week. The EU says Microsoft could still face fines if its plan does not meet requirements to make Windows compatible with software from competitors; it is expected to make its decision in several weeks.

See article

EBay, the firm which operates the world's biggest internet auction site, paid $620m for Shopping.com, an online shopping-comparison site, which it plans to use to reach a wider pool of buyers.

The International Air Transport Association estimated that **airlines' fuel costs** would rise by 31% in 2005. IATA, which represents 95% of the world's airlines, also predicted that the industry would lose $6 billion.

Ryanair, a low-cost airline based in Dublin, posted a 19% rise in net profit to *euro*268.9m ($338m) for the year ending March 31st. The carrier said its decision not to follow the trend of imposing fuel

surcharges on its fares led to an increase in passengers.

Tit-for-tat spat

America said it would file litigation with the World Trade Organisation against European Union subsidies to **Airbus**, in effect ending months of talks that sought to avoid a damaging trade war. The EU promptly launched a countersuit against America for subsidies to **Boeing**.

See article

Separately, Airbus admitted that some early deliveries of its **A380** super-jumbo would be delayed by up to six months. Singapore Airlines, which will be the first to fly the double-decker jet, said it may seek compensation.

China scrapped its recent proposal to apply tariffs to its exports of **textiles**. The measure had been intended to reassure America and the European Union, which have both seen textile imports from China surge since quotas were lifted on January 1st. The Chinese say that the Europeans' plan to follow America in imposing “safeguard” quotas breaks global trade rules.

See article

Paul Wolfowitz started his new job as president of the **World Bank**. The former Pentagon official said his first focus would be on Africa and on tackling corruption in developing countries.

See article

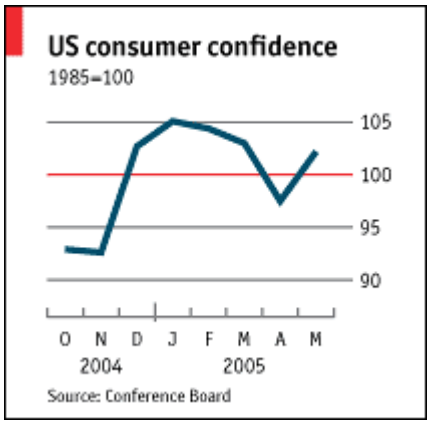
Oil prices crept up to over $54 a barrel—since mid-May, oil had been trading steadily at around $50. Trading was influenced by concern that the failing health of Saudi Arabia's ruler could affect production.

Amid claims of a political crisis in Europe, the **euro** fell to an eight-month low against the **dollar**. The currency has now fallen by 9% since March.

See article

Looking forward to summer

The Conference Board's index of **consumer confidence** in America jumped to 102.2 in May from 97.5 in April. Consumers' expectations for the next six months also rose, as did the percentage of people saying that jobs were “plentiful”, which stood at its highest level since September 2001. Paradoxically, the percentage of people saying jobs were “hard to get” also increased.



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The future of Europe

The Europe that died

Jun 2nd 2005
From The Economist print edition

And the one that should live on

The Bridgeman Art Library

Get article background

FOR those who fancied that they were building a United States of Europe, a combined power with more people and a bigger economy than the United States of America, the double “no” to the European Union's constitution from France on May 29th and the Netherlands on June 1st has been a cruel collision with reality. And yet ratifying the constitution was never going to be easy. Although legally just another treaty, the lengthy text consolidates all previous treaties and adds new powers for Brussels, a combination that invited opposition. With 11 countries putting the result to a popular vote, it was always likely that at least one would say no. And, because it required approval from all 25 EU members, that made it unlikely that the constitution would ever enter into force.

Yet neither this analysis, nor a string of negative opinion polls, has made the unequivocal noes from France and the Netherlands seem any less shocking. For the first time, voters in two founders of the European project have decisively rejected a European treaty. Euro-enthusiasts may insist that the French and Dutch were expressing displeasure with their governments, gloom over their sickly economies or fears of foreign competition. Yet nobody who observed the French and Dutch debates could claim that the EU was peripheral to voters' concerns. That such big majorities have rejected the constitution points to a profound grassroots dissatisfaction over how Europe's political elites have steered the EU.

The French president, Jacques Chirac, has responded in time-honoured fashion by picking a new prime minister, Dominique de Villepin, as classic a specimen of the elite as it is possible to find (see article). That augurs ill for the conclusions that Europe's leaders will take from the voters' anti-elite message. Too many are still insisting on proceeding with ratification of the constitution elsewhere. Yet the decisive French and Dutch noes have killed the constitution stone dead: there is surely no prospect of these two countries being asked to vote again, as Denmark and Ireland did on previous occasions (see article). To insist that the Danes, Irish, Poles, British and others must still vote is like asking doctors to operate on a corpse in the vain hope of resurrecting it.

It would be equally wrong for EU leaders to rush to salvage the bits of the constitution of which they are especially fond. The EU may well need a more coherent foreign-policy set-up, a new voting system for national governments in the Council of Ministers, a smaller European Commission and more democratic and transparent law-making. Some of these could be introduced without treaty amendment (and hence

with no need for tricky national ratification). Yet to adopt any such changes now would be seen as so contemptuous of the voters' wishes as to invite a still more explosive anti-elitist backlash.

Rather than indulging in more backroom bargaining, Europe's leaders should draw two broader lessons from the French and Dutch noes. The first is that rejection of the constitution signals that the dream of deeper political integration and, in the 1957 Treaty of Rome's famous phrase, “ever closer union”, is over. Instead the EU should move in the direction of being a looser, less federalist and more decentralised club. The French and Dutch votes also surely rule out the creation of a more integrated core of a few countries, including these two, that moves faster than the rest towards a political union.

The second lesson is that the club must pass more powers back to its members, to make the EU's supposed “subsidiarity” principle (decision-making at the lowest sensible level of government) a reality. It is true that opponents of the constitution have displayed contradictory views—some wanting more economic liberalism and freer markets, others a social Europe with more fettered markets. But the only way to accommodate such diversity of views is to give countries a choice. If Britain, say, wants to keep its labour markets free of unnecessarily burdensome rules on working time or job security, it should be allowed to do so; if France prefers to do more to protect those who are in work, it should be free to do that too. Neither side should be able to impose its policies on the other.

An exercise in damage limitation

This is not to say that there can be a free-for-all without a referee. Even opponents of the constitution mostly accept the EU's single market, which embodies the Rome treaty's principles of a free flow of goods, services, labour and capital. Such a market requires policing, for instance of state aid to companies, curbs on migration or the application of competition rules. The government of Mr de Villepin, who is no economic liberal, may now be tempted to test the boundaries of what obstructions it can place in the way of EU rules. The risk of damage to the single market is significant: it behoves Europe's leaders, and the European Commission, to avert it at all costs.

Such damage limitation is most pertinent when it comes to the new countries of central Europe that joined the EU in May last year. The wisdom and consequences of the club's past and future enlargements featured large in the no campaigns in France and the Netherlands, with much talk of competition from Polish plumbers and the loss of jobs to the east, and much hostility to the prospect of Turkish entry. There is a big chance, after the French and Dutch votes, that Europe's leaders will turn against further enlargement of the EU—and even that they may renege on the admission of Romania and Bulgaria in two years' time. They may also scrap the planned start of entry talks with Turkey in early October.

Enlargement has been easily the most successful EU policy of all. Taking in ten members last May has helped to create a zone of peace and growing prosperity on the EU's borders, and also imported much-needed economic dynamism into the old continent. Similar points can be made in respect of the Balkan countries—and for Turkey. Turkish entry would also bring large strategic benefits, helping to defuse tensions between the West and the Islamic world. It is true that Europe's voters remain to be persuaded of any of these points, but that is at least partly because their leaders have barely begun to explain the case for enlargement. Given that France and others may well put any further expansion to referendums, politicians need to learn some better salesmanship fast.

However, the biggest single lesson from the French and Dutch referendums is the pressing need to get Europe's economies to grow and European unemployment to fall. It is economic and employment failure, especially in the core countries of the euro zone, that lies at the root of voters' dissatisfaction both with their leaders and with the EU—a point confirmed by the deep unpopularity of the Schröder government in Germany and the Berlusconi government in Italy.

The cure for this failure is easy to prescribe: economic reforms and further liberalisation, which have worked in Britain, Ireland and the Scandinavian countries. Such reforms are being promoted by the commission under its Lisbon agenda, including its much-abused directive to liberalise trade in services. Yet the leaders of France, Germany and Italy now have a fundamental objection: that their voters turned against them precisely because they tried, somewhat timidly, to bring in reforms (the EU services directive was demonised in the French referendum campaign). Many European leaders are now even less likely than they were to pursue the Lisbon agenda or to implement economic reforms at home.

That is highly regrettable. It is also unlikely to bring success, because it will perpetuate the low growth and high unemployment that are surely more to blame for governments' unpopularity than any reform.

But a final lesson from this week's votes is that it is no longer any good seeking to impose reform from outside, whether via the commission, the European Central Bank in Frankfurt or preaching by Britain's Tony Blair. It is only when countries' own leaders grasp how essential reform is to their economies—and to their own chances of electoral survival—that it will happen. Subsidiarity, after all, must enable countries to pursue wrong as well as right policies.

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France after the referendum

It's Chirac, stupid

Jun 2nd 2005
From The Economist print edition

France's president has wasted ten years, devoted mainly to a search for scapegoats

AFP

Get article background

UNDER France's fifth republic, prime ministers have come to serve a useful purpose for presidents: when the going gets tough, they get both the blame and the boot. Georges Pompidou got rid of Jacques Chaban-Delmas; François Mitterrand kicked out Pierre Mauroy, Michel Rocard and Edith Cresson. Sure enough, after the crushing French rejection of the European Union constitution in a referendum on May 29th, President Jacques Chirac turfed out Jean-Pierre Raffarin and appointed Dominique de Villepin, one-time foreign minister and unelected former diplomat, promising a "new impetus" from his government (see article). Having heard France's message, he said in a television broadcast, "I intend to respond." The trouble is that the selection of an elite technocrat is not a meaningful response to that message. For the ultimate responsibility for the political upset this week belongs not to the hapless Mr Raffarin, but to Mr Chirac himself.

The French had many reasons to reject the constitution, but underlying their defiance was a simple point: times are hard, jobs are scarce, nothing changes, promises go unkept, we are fed up, and you—the political class—refuse to listen. After ten years as president, Mr Chirac has received this message more than once. He received it in 1997, when he called an early parliamentary election and lost, landing himself with a Socialist government. He received it in 2002, when the far-right Jean-Marie Le Pen made it into the presidential run-off. He received it in 2004, when the left swept the board at regional and European elections. Now, he has received it once again.

Leaders can respond to such discontent in two ways. One is to pretend that the French social model is still valid, that no trade-off exists between social protection and economic growth, that France can close the shutters and shelter from global capitalism, that all the blame belongs with outside forces—whether globalisation, America or Brussels. The other is to admit that France cannot isolate itself from the world economy, to explain that new markets are an opportunity for French companies, that job losses in manufacturing can be balanced by job creation in services and that inflexible social protection deters the creation of new jobs.

At almost every turn, Mr Chirac has chosen the first response. His one bold attempt at economic reform, under Alain Juppé in 1995, ended in failure when he backed down after the country was paralysed by strikes. Since then, rather than confronting the populist arguments of the anti-globalisation lobby, Mr Chirac has drifted to the left with public opinion. During the referendum campaign, he was at it again,

promising that the constitution would entrench the French social model and protect it from “Anglo-Saxon liberalism”. His choice of Mr de Villepin, the aristocratic product of elite technocratic training and the embodiment of everything the French have just rejected, runs true to form. Mr Chirac was first elected president in 1995, pledging that “jobs will be my preoccupation at all times”. Since then, unemployment has barely moved: from 11.3% then to 10.2% today.

At this time of *morosité*, it is easy to forget that France has so much going for it. Government policy may stop its top companies from creating many jobs, but they know how to make and sell the world such products as lipstick, rubber tyres, cars, handbags and insurance. There is no reason why the country should not halve its unemployment rate by deregulating the labour market—if the political will existed to take on the unions. Yet Mr de Villepin, who has never held an economic portfolio and recently called for a more socially minded programme, is unlikely to be any bolder than his predecessors.

You have delighted us long enough

The source of France's troubles is not Europe, nor global capitalism, nor rebellious socialists, nor the far-right, nor the far-left. It is Mr Chirac. His failure to be straight with the French about the need for reform has come back to haunt him. That is why a better response would have been for Mr Chirac to follow the example set by Charles de Gaulle after he lost a referendum in 1969: to accept his responsibility and resign.

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Arthur Andersen

Reversed and remanded

Jun 2nd 2005
From The Economist print edition

The Supreme Court's quashing of the accounting firm's conviction sends an important signal

Get article background

EVEN in an era of business scandals and excess, the downfall of Arthur Andersen, one of the world's biggest accounting firms, was spectacular. The 89-year-old firm was convicted in June 2002 by a Houston jury of obstructing justice by shredding tons of documents and destroying e-mails related to its client, Enron, just before the energy-trading giant abruptly went bankrupt the previous autumn when questions were raised about its financial statements. After its criminal conviction, Andersen itself collapsed. Client companies fled the firm, and Andersen had to surrender its licences to practise in all 50 American states. But that is not the end of the story. On May 31st America's Supreme Court, in a unanimous decision, overturned the firm's conviction. Was the entire episode a ghastly mistake? And have Andersen's former employees, who bitterly resented the verdict, been vindicated?

It is understandable that many who once worked at the firm feel this way. Andersen employed nearly 90,000 people worldwide at the time. Most had nothing to do with Enron, or dodgy accounting. Almost all had to scramble to find another job, and because Andersen was a partnership, many lost large sums of money. A mere 200 employees still work at the firm, handling the lawsuits that arose out of Enron and other cases, and pursuing Andersen's own appeals through the courts.

But the truth is that the Supreme Court's decision is not a vindication of Andersen itself (see article). The court overturned the conviction on the narrow grounds that the federal judge's instructions to the jury were too vague and failed to demand that jurors conclude Andersen knew its actions were illegal. The court did not acquit Andersen, but sent the case back to the lower court for a retrial, though prosecutors are now likely to let the matter rest. Moreover, it is not certain that the jury would have acquitted the firm if it had received the correct instructions from the judge. Jurors might have concluded that Andersen's frenzy of shredding, and some e-mails recommending this, were proof enough that the firm was knowingly trying to subvert a looming federal investigation.

In any case, even if it had been acquitted, Andersen would have been in deep trouble. It was not only Enron's auditor, but in 2001 had been sanctioned by the Securities and Exchange Commission (SEC) for misleading audits at Waste Management, another big firm. And just as Andersen was convicted over Enron, a massive accounting fraud was disclosed at WorldCom, a telecoms giant. Its auditor? Arthur Andersen.

Nevertheless there are two important lessons to be drawn from Andersen's legal travails. First, prosecutors in the case overreached themselves in persuading the judge to dilute the jury instructions. The Supreme Court rightly wants all convictions to meet the same standard: defendants should be found guilty only if the jury believes that they knew they were committing a crime. In white-collar cases this can be difficult to prove, but not impossible. Prosecutors must aim to meet this standard in the upcoming trials of Enron executives and others. Second, prosecutors should reserve the criminal prosecution of service firms such as accountants, banks and insurance firms, which depend on government licences to stay in business, to only the most egregious cases. After all, the SEC and other agencies already have a powerful sanction in civil lawsuits. Even in Andersen's case, it would have been better to confine any criminal charges to individuals, rather than to destroy the livelihood of thousands of innocent employees.

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Economic development

The key to trade and aid

Jun 2nd 2005
From The Economist print edition

Multilateralism is the bedrock of global trade policy. It is time for the same approach to aid

AFP

WHEREVER you look, trade tensions are on the rise. America and the European Union are squealing about surging textile imports from China; both are slapping on “safeguard” quotas to stem the flow. China is furious and has retaliated by scrapping voluntary export taxes on its textile exporters (see article). Meanwhile Americans and Europeans are, once again, spitting at each other about subsidies to Boeing and Airbus. Both sides this week formally filed complaints at the World Trade Organisation (see article). Set against an increasingly protectionist backdrop—whether in America's Congress or among France's *non*-voters—this rash of disputes might suggest an ominous outlook for the global trading system.

There is one bright spot, however. The recent tensions show just how integral the rules of the global trading system, and the WTO that adjudicates those rules, have become to the way countries, rich and poor alike, think about trade policy. The safeguard quotas that America and Europe are using to staunch Chinese textiles may be of dubious economic merit, but they were agreed under the terms of China's entry into the WTO and therefore have limits (they must go by 2008). China can, and no doubt will, file a complaint if it reckons their application is unfair. Even on the aircraft dispute, the shift to an independent arbiter may be more constructive than endless acrimonious bilateral negotiations. And in America, the global rules are proving an important bulwark against protectionist backsliding. The Bush administration has been able to deter some of Congress's more extreme China-bashing plans by pointing out that they are illegal under world trade rules.

The growth in the WTO's membership to 148 countries is testament to its appeal. That does not mean the commitment to multilateralism is absolute. Many countries still pursue bilateral and regional trade deals, even though these are clearly inferior to global agreements, often diverting more trade than they create. And too many poor countries still care more about winning special preferences from rich ones than the benefits of opening their own markets. But overall, most seem to have concluded that, on trade, multilateralism makes sense.

From trade to aid

What a pity the same logic is missing from the other main channel through which rich countries deal with poor ones, namely foreign aid. Far more aid is dispensed bilaterally by donor governments than through multilateral channels, such as the World Bank. The parallel between trade and aid is not perfect. In trade the multilateral always trumps the bilateral. Foreign aid could, in principle, be dispensed as efficiently by bilateral donors as multilateral ones. But in practice many of the same problems apply. Too much bilateral aid is driven more by geo-politics than economics. Many poor countries are overwhelmed by the task of dealing with a slew of donors. And much bilateral aid is of dubious quality, tied to the purchase of goods from the donor country and unpredictable in its amounts or timing. Although far from perfect, the World Bank, by contrast, is highly regarded and has thought more deeply than any other institution about what makes aid work (see article). On balance, its lending to poorer countries is more focused and efficient than most bilateral routes.

And yet the trend in aid is still far too wedded to bilateral routes. That is particularly true of America. The Bush administration, like many other rich-country governments, has sharply boosted its foreign-aid

promises. But it has long been sceptical about the World Bank. Its extra money is going mainly through new bilateral channels, such as the Millennium Challenge Accounts. America's share of funding for the World Bank's soft-loan arm has fallen by almost a third. Paradoxically, the best hope for changing this attitude lies with Paul Wolfowitz, America's former deputy secretary of defence who took over as Bank president on June 1st. One of his top priorities should be to convince his former colleagues of the benefits of multilateralism—in aid as well as trade.

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Militant Islam in South-East Asia

Turning back the tide

Jun 2nd 2005
From The Economist print edition

The war against terror can be won

Alamy

Get article background

AT THE turn of the millennium, it was fashionable to talk of an “arc of instability” sweeping from the Middle East up into Central Asia and the northern subcontinent and back south into South-East Asia. Throughout this mighty arc, home to well over a billion people, growing terrorism in the name of radical Islam was at the least a damaging threat to life and property, and at worst portended wholesale “Talibanisation”—the takeover of entire states by religious militants.

Five years on, much has changed. In the Middle East, the toppling of Saddam and the occupation of Iraq have shattered the old order, though it is still too soon to say into what configuration things will eventually settle. In Afghanistan and Pakistan, secular rulers have kept the Islamists at bay, while the much-feared *jihad* that would engulf all of Central Asia never materialised. No one would sensibly call any of these countries wholly stable. But it now seems right to declare that the arc's South-East Asian prong has been made safe.

This is no small achievement. Indonesia, after all, is the world's largest Muslim country, and it is less than three years since the terrible bombing of a nightclub in Bali (only the worst of a string of outrages) showed that al-Qaeda associates were operating freely there. Other associates were known to be active in Singapore, Malaysia and the southern Philippines. In Malaysia, the ruling party faced a strong and growing threat from PAS, an Islamist party devoted to the imposition of fundamentalist punishments such as the chopping off of hands and death for apostasy. In Indonesia, the misrule of three successive weak presidents, following the ousting of President Suharto in 1998, saw the popularity of Islamist parties—though, happily, divided—rise.

Things look very different now. The influence of PAS is clearly on the wane in Malaysia, and in last year's presidential election in Indonesia no Islamist party came anywhere near posing a threat. As last weekend's bombing on the island of Sulawesi shows, violence is far from eradicated in Indonesia: but that attack, which killed 19, provoked worldwide attention precisely because it bucked an encouraging trend. One reason for declining terrorism is that police work has greatly improved. It took the Bali bomb to do it, but the security services of South-East Asia have learned to co-operate with each other and with their counterparts in Australia and America.

However, the main reason for South-East Asia's relative success in tackling violent Islam is the region's adoption of democracy and openness. Although (see article) fundamentalism is still alive and well in Malaysia, its ideas are openly debated, its champions fight at the polls, not with bombs, and where it succeeds, it does so because a majority of people want it to. The same is broadly true in Indonesia. Properly engaged with, there is no reason why Islam need become subversive or violent. It is no coincidence that the world's most democratic Islamic states are also its most moderate. Although terrorists may still launch the occasional strike in South-East Asia, they will enjoy little public sympathy.

There are, of course, counter-examples. The heavy-handed and incompetent treatment of Islamists in south Thailand has provided a good example of how not to do things. No surprise, then, that this is the only country of South-East Asia where violence is getting worse. But at least this, like a continuing insurgency in the southern Philippines, is a relatively small and localised problem. Turning back the tide really is possible.

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Letters

Jun 2nd 2005

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Put it in perspective

SIR – Leaving aside the media's chronic disregard for the truth, you have to wonder how a manufactured story by *Newsweek* about American officials flushing pages of the Koran down the toilet can stir up so much violence around the world ("A deadly blunder?", May 21st). After Andre Serrano depicted a crucifix in urine, Yoko Ono ripped pages from the Bible at one of her performances and the Brooklyn Museum displayed art juxtaposing the Virgin Mary with elephant dung, many Christians duly protested to no avail. But although the mainstream media contemptuously dismissed their cries of indignation, that was as far as the protests went. Where is that "peaceful" aspect of Islam everyone keeps talking about?

Miguel Guanipa
Whitinsville, Massachusetts

SIR – It is remarkable to note the contrast between the violent reaction in the Islamic world to the initially unsubstantiated claims at Guantánamo Bay, resulting in at least 17 deaths, and the passive Islamic reaction to Saddam Hussein's killing of 500,000 of his own people (not to mention a million Iranians) during his dictatorship. Exactly why does the presumed action of a single American official, involving no loss of life, no matter how obnoxious or disrespectful, elicit a far stronger reaction in the Islamic world than the deaths of tens of thousands of their co-religionists in the most cruel and wasteful manner?

Leslie Sacks
Los Angeles

SIR –*Newsweek* gets its facts wrong and the ensuing riots kill 17 people. Two years ago, the then director of the CIA, George Tenet, got his facts wrong and the subsequent invasion of Iraq killed several thousand Americans and Iraqis (and counting). Maybe George Bush should also offer a medal to *Newsweek.*

Joel Sitty
Mystic, Connecticut

A central down under

SIR – Your survey on Australia presented 14 pages of undiluted propaganda on centralism (May 7th). Some of us recall the Labor government of the 1970s, which also wanted centralised control over such things as industrialised relations. But back then it was to pursue "comparative wage justice" and other utopian ideals. For a geographically vast, economically disparate, export-oriented economy like Australia, where the internal market is relatively unimportant, centralised control leads to rent-seeking by interest groups and thus inefficiency. How would you react to a centralised European government in Brussels? Centralised government in Australia makes even less sense.

Stephen Morris
Coorparoo, Australia

SIR – You fell for the government's spin as far as unemployment figures are concerned. Anyone in Australia who is employed for an hour a week is classified as "employed". Some 30% of the workforce are casual and around 1.8m are either unemployed or under-employed. The true unemployment rate, as

any leading Australian economist will tell you, lies between 10-15%.

Martin Darke
Quinns Rocks, Australia

SIR – You waxed lyrical about Australia's 15 years of continuous economic growth. However, you gloss over the fact that Australia's external imbalances have never been larger, even at a time when international commodity prices are booming and China is expanding rapidly. You also failed to note that Australia's housing bubble and consumer over-indebtedness make the United States look like a paragon of frugality. A more balanced view might have asked what happens to Australia when commodity prices ebb and when China's investment bubble bursts?

Desmond Lachman
Washington, DC

A lesson in Polish history

SIR – I must protest against your reference to Belzec as "a Polish concentration camp" ("Teeth, booze and Ukrainian women", May 21st). It is important to remember that concentration camps and death camps in occupied Poland during the second world war were built and operated by the Nazis, not Poles. I am certain you will understand that for Poles your unfortunate expression is more than a mere gaffe like those ironically reported in your article.

Zbigniew Matuszewski
Ambassador for Poland
London
Editor's note:

Our reference to Belzec has been corrected online

Philosophical outrage

SIR – Your review of my collection "The Future for Philosophy" insults, gratuitously, the contributors to the volume, and me as the editor, by implying that senior academics were invited to contribute to the book not because they are internationally recognised leaders in their areas of philosophy, but because they did not sign a letter of protest about my online guide to graduate study in philosophy ("Tease the mind", May 21st). Of the 287 professional philosophers (out of some 13,000) who signed that letter, perhaps two dozen are as distinguished as the contributors to this volume. Several of those two dozen were, in fact, invited to contribute to the volume, but—like a half-dozen other prominent philosophers who were solicited—declined the invitation, or made tentative commitments, and then withdrew. Simple fact-checking by your snide, but lazy, reviewer would have prevented this irresponsible insult to the eminent philosophers who contributed to the book.

Brian Leiter
Austin, Texas
Editor's note:
Our complimentary review of "The Future of Philosophy" made no such accusation, even implicitly. We pointed out that Mr Leiter's online ranking, the *Philosophical Gourmet*, is controversial, but to do so was proper, not snide.

The American way of life

SIR – You ask why we Americans work more hours than do Europeans ("Relax! It's the law", May 21st). While the data does show that Americans work more hours in formal jobs, it doesn't follow that Americans work more hours in total. Compared with Europeans, Americans have more time-saving appliances and greater access to time-saving amenities such as prepared foods and house-cleaning services. We also have larger homes with more storage space, so we spend less time running to the supermarket. As a result, we work fewer hours taking care of our households and can work more hours earning income.

Donald Boudreaux

Fairfax, Virginia

The French way of life

SIR – Your warning to George Bush, that enterprise is best supported by avoiding what they do in France, asks the reader to accept a priori America's brand of capitalism in preference to the French brand ("Damaged goods", May 21st). However, in your book review of "The Arrogance of the French", you quote American author, Richard Chesnoff, as saying: "I personally find the quality of my day-to-day life in France far superior to anything that I could afford back home in the United States of America" ("Mutual contempt", April 16th).

A short visit to both countries would surely endorse this view. Shouldn't French capitalism be credited as an alternative brand, producing satisfaction for consumers far beyond the market leader's growth-obsessed version, rather than used as a definition of the unacceptable?

Paul Turner
Hong Kong

ONLINE ARTICLES

The following correspondence refers to articles published only online

Europe's constitutional mess

SIR - Among the most important and fundamental principles the American founding fathers got right was the establishment of a representative rather than pure democracy. The American constitution was not, and never has been, ratified by a vote of the people, but rather by the votes of their representatives. Pure democracy exercised through direct citizen voting on referendums is a catastrophe.

When I was a citizen of California, I was asked at every election to vote on referendums, almost none of which I understood. Unlike my representatives, I had no staff to analyse them, no sense of their place in the spectrum of needs, and no understanding of the background and compromises that went into them. My vote was based on general impressions, the positions of political leaders, and the political passions of the moment. I'd wager that very few French voters even read the proposed EU constitution, much less understood its deeper aspects. I am very surprised that experienced politicians such as Jacques Chirac and Tony Blair would choose this route to ratification of so important a document.

Neil Webre

SIR - One can only be encouraged by the decision of the French and Dutch people to reject the European Union constitution. The constitution promises to protect the status of religious communities in member states and pledges dialogue between political and religious institutions. But this is meaningless since the constitution has already, in its text, broken good faith with organised religion by deliberately failing to mention Europe's Christian roots and identity.

The road has now been paved for a democratic government that will authorise anything that any group in society asks for, as long as the group phrases the request in the language of "rights". Ultimately there will be anarchy. Already we have seen the nihilistic yet impeccably democratic result of such contemporary legislation involving life itself, such as the Dutch laws that legalise various drugs, prostitution, same-sex marriage, euthanasia and genetic manipulation.

Also, there is widespread concern about moves towards Turkish accession to the EU. From an historical and political point of view, Turkey has always represented another continent that is in permanent contrast to Europe and that, for this reason, should not be included in the Union.

The constitution's missing reference to Christianity shows an undervaluing of historical evidence and of the Christian identity of European peoples. One cannot cut the roots from which one is born.

Paul Kokoski

Andersen's conviction overturned

SIR - You end your article about the US Supreme Court's overturning of the Arthur Andersen verdict ("Death sentence commuted—too late", Economist.com, June 1st) with the following two sentences: "Now, the right of companies to destroy potentially incriminating information, so long as they are not currently under investigation, seems guaranteed. Cue the sound of relieved bosses turning on shredders across the land."

This steers the reader's attention to the downside of the court's ruling. In a free and just society, however, do we want to impose greater uncertainty on people's business decisions, and provide virtually unlimited governmental discretion to charge businesses and their leaders with crimes? Your article should have dropped the sardonic humour—and those last two sentences.

Douglas J. Sanderson

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Cars in China

Dream machines

Jun 2nd 2005 | BEIJING AND SHANGHAI
From The Economist print edition

Reuters

China is not yet an auto-culture in the mould of the United States. But it may only be a matter of time

“CHINA has begun to enter the age of mass car consumption. This is a great and historic advance.” So proclaimed the state-run news agency, Xinhua, last year. Environmentalists may feel a twinge of fear at this burgeoning romance with motoring. But a rapid social and economic transformation is under way in urban China, and the car is steering it.

In 2002 demand for cars in China soared by 56%, far more than even the rosiest projections. The next year growth quickened to 75%, before slowing in 2004 (when the government tightened rules on credit for car purchases) to around 15%. But in a sluggish global market, China's demand remains mesmerising. Few expect this year's growth to dip below 10%. As long as the economy goes on galloping at its current high-single-digit clip, many expect car sales to increase by 10-20% annually for several years to come.

Gargantuan figures trip merrily from the tongues of car manufacturers. With 5m car sales last year, China is already the world's third-largest car market, after America (17m) and Japan (5.9m). “China is going to become the second-largest market in the world sometime over the next two or three years,” says David Thomas, head of China distribution for Ford. Between 2010 and 2015, he thinks, it could be the biggest. “China is developing in very similar ways (to the developed markets), but doing it so much quicker,” Mr Thomas adds. “*So* much quicker,” he repeats.

At the same time, China has been pouring billions into expanding its highway network. By the end of 2004, China had 34,000km (21,000 miles) of motorways, more than double the 2000 figure (17 years ago, it had none). Only the United States has more. China's total road network is the world's third-longest: 1.8m km, with 44% of it built in the past 15 years. Nor will it stop there. By 2020, China plans to double again the length of its motorways.

This combination of soaring car ownership, frantic motorway construction and a booming economy evokes images of America in the 1920s, when the car transformed the aspirations of the middle class,

and the 1950s, when the federal government built the interstate highways. Yet, in China's case, these developments have been compressed into just a few years. Government willpower has made this possible. China's strategy, inspired not least by America's experience, is to make the car industry a pillar of its economy. It welcomed foreign carmakers, as long as they formed joint ventures and took no more than a 50% share. And with the banks under its control, it pushed investment into the sector and mandated a flood of lending to private individuals in order to fuel demand.

These grandiose hopes are clearly on show in Shanghai's Jiading District, a semi-rural expanse dotted with factories about 30km from the city centre. Two years ago, it was a mosquito-infested wasteland. Now it houses a vast, futuristic steel and concrete structure, China's first Formula One racetrack. Never mind that few Chinese had heard of Formula One races, let alone had any interest in them, before construction got under way. The $320m state-of-the-art facility, completed last year, boasts a 5.4km circuit in the shape of the Chinese character “shang”. This represents not just the first syllable of the city's name, but, more to the point, it means “upwards”, or forging ahead.

The inaugural Formula One race last October drew a crowd of 150,000, many paying at least 1,800 yuan ($215): a month's wages for the average factory worker. For much of the rest of the time it has been eerily empty. Making money is not a priority. It is intended as the showpiece of a new “automobile city” that Shanghai is trying to create in Jiading, home to a joint venture between Volkswagen and Shanghai Automotive Industry Corp (SAIC), a state-owned company whose Volkswagen-branded cars enjoy the biggest share of China's market. The plan, say officials, is to turn the area into a centre of car research and development, a place where cars and their components are made and where leisure revolves around them. As well as the race track, a $50m car museum is due to open next year.

Zhu Ningning, deputy director of the municipal team in charge of the auto city, thinks this government-led strategy will pay off. “We've built this in three years. It took Detroit a hundred years,” he says. Half of the $2.4 billion invested in the auto city so far has come from the government. In the next three years, Mr Zhu says another $3.6 billion will be spent, with the government putting up one-third. “This auto city is unique in the world,” enthuses Mr Zhu. “Detroit has an industrial concentration, and museums, but it has no Formula One.” And to ensure this does not become the kind of random industrial sprawl so familiar elsewhere in China, Mr Zhu's team has commissioned Albert Speer, a German architect and son of Hitler's favourite architect of the same name, to help design it.

The birth of demand

In China's bigger cities, the rivers of bicycles—once one of the most vivid images of urban China—have been replaced with streets jammed with cars, most of them, terrifyingly, in the hands of novice drivers. By banning or severely restricting motorcycle use in these cities, China has leapfrogged the development pattern of its Asian neighbours, where the motorbike has usually provided the newly affluent with their first taste of effortless mobility. Shanghai, home to about 9m ordinary bikes, aroused a flurry of media criticism last year by banning them from main roads in the centre. But they are less and less used these days.

To some extent, China's embrace of the car has been a predictable result of growing urban affluence. But several other factors caused demand in China, at least until a year ago, to soar beyond expectations. A huge boost came when China joined the World Trade Organisation in 2001, which required a considerable easing of barriers on car imports. The prices of domestically-produced cars fell rapidly in anticipation of tariff reductions, and have continued to do so by 10% or more a year.

Price cuts, and the introduction by foreign car companies of cheaper models (made at their factories in China), also helped put car ownership suddenly within reach of a fast-growing new middle class. “There is some similarity between the Chinese and American approach,” says Jean-Claude Germain, the chief representative in China for Peugeot Citroën. “When somebody doesn't have the cash to buy a car he will dream and will do everything to be one day in the position to have this product.” Mr Germain thinks some 50m-60m Chinese can now afford to buy one. If they had doubts, easy credit from the state-owned banks (until last year, that is) helped to overcome them.

Another crucial engine of demand was a dramatic transformation in the social and economic structure of Chinese cities. Ten years ago, most urban residents were employed by state-owned factories or other entities with links to government. They lived in housing assigned by their employers, virtually rent-free and usually close to where they worked. A bicycle, or public transport, was usually adequate to take them farther afield. The banks, too, did not lend to individuals.

Since the late 1990s, however, housing has been largely privatised. Many state-owned factories have closed down or been shifted to suburban areas to reduce pollution in the cities and make way for new development. The economic boom has been spurred by a building frenzy, which itself has been fuelled by reckless bank lending and by the government's readiness to allow developers to bulldoze the inner cities. Close-knit communities have been scattered, often to the suburbs, to places ill-served by public transport and far from places of work.

Most people in the countryside—where 60% of the population live, earning, on average, less than a dollar a day at the official rate—will never get beyond dreaming of having a car. But the psychological impact on many urban residents of the car's sudden affordability has been considerable. Until the 1990s, travel within China was restricted. A letter was required from a state employer in order to buy a plane ticket, a comfortable seat on a train or a room in a decent hotel. A citizen's life was closely monitored at home and work. The government's decision to encourage private enterprise meant its grip had to ease. Then enter the car, that symbol of freedom and status. No wonder city-dwellers could hardly wait to buy one.

“New driver, please look after me”

Acquiring a driving licence is not difficult. Although a learner has to undergo 70 hours of training over two months, it is hard to fail the test. Ill-paid examiners are readily bribable, with the instructors acting as middlemen and taking their own cut. Many cars on city streets display notices saying “New driver, please look after me”. The plea is in vain. The death rate on China's roads is the highest in the world: 680 die and 45,000 are injured every day, according to the World Health Organisation, compared with around 115 deaths a day in far more motorised America.

Ownership is still minuscule in per capita terms: 7 or 8 out of every 1,000 people, compared with a global average of 120 and more than 600 in America. The number of private cars in China—about 10m—is still only half the number of cars in America at the onset of the Great Depression. But Beijing, a city of 12m people (counting only registered residents) has 2m cars, some 80% of them in private hands. A quarter of a million of these were bought in the past two years. Despite the widening of main thoroughfares (knocking down yet more residential buildings), the building of a suburban light-rail line and the opening of a new ring road in the past few years, the city's infrastructure cannot keep up.

Concerns about congestion, parking, fuel-price increases and the possibility of a new fuel tax are beginning to dampen demand in the city, says Qie Xiaogang, a market analyst at the city's biggest car market. The government's decision last year to tighten bank lending for car purchases has also had a big impact. Being new to a credit culture, and having little fear of reprisals from timid state-owned banks, many Chinese had borrowed beyond their means, using falsified certificates of their income. This has created a “big financial black hole” in China's banking system, says Mr Qie. But even with buying on credit down to 10% of transactions compared with a high of 30% in 2003, sales are booming. Many buyers at his market come in with bagfuls of cash.

Curiously, however, the car remains largely a tool for short-distance travel, usually to the office and back. The motorway network has so far failed to transform travel and leisure habits. Steve Bale of BatesAsia, an advertising firm, says that last year fewer than 20% of car owners used their vehicles to travel out of the city at the weekend. Hitting the open road and following it wherever it leads is not, it seems, a particularly inspiring notion to the Chinese car owner. Jin Jianjun, a 46-year-old office worker in Beijing who spent this year's lunar new year holiday driving 6,000km around China with his wife and daughter, is a rare exception. He says that now is the best time to be a car owner in China, because the newly built intercity expressways are still so free of cars.

The non-lure of the open road

One reason for the scarcity of long-distance drivers is that air travel became affordable and convenient for many urban residents before car ownership began to grow. For the single traveller, and often for two together, flying usually remains the cheaper option—cheaper even than a railway journey in a “soft seat” compartment. The trip from Beijing to Shanghai, a distance of about 1,120km, costs far more by road than it does to fly. Taking the Beijing-Shanghai expressway requires stopping at more than ten toll barriers and paying a total of 500 yuan ($60), not including petrol. A discount air ticket would cost less than the road tolls alone.

Building motorways has been used by the government as a tool for stimulating economic growth. Most

are financed by loans from the state banks, and their operators stand little chance of repaying the debt on time. On some stretches toll revenue barely covers the cost of hiring toll collectors, let alone interest payments. Lorry drivers often prefer to use the old roads that run parallel to the expressways in order to save money.

A year ago, the Beijing city government decided to scrap toll charges on the new $1.6 billion expressway around the city just a few months after it opened. The tolls had been projected to cover the loan within 30 years. But early usage suggested it would take more than two centuries. In Shanghai, self-styled “motels” have recently opened in the city, but they are barely distinguishable from regular hotels. Sun Fei, the manager of a 230-room branch of Motel 168, a privately-owned chain, says he has only 60 parking spaces. These, however, are “enough to satisfy demand”.

China's media love to talk of an emerging “car culture” in China. Yet in the popular imagination there is no equivalent yet of a Route 66. Map-reading is a skill few have mastered (detailed topographical maps are classified as state secrets). Group travel is preferred in a country where a bewildering variety of cuisines, dialects and cultures can make independent travel daunting. The self-drive car-rental business is in its infancy, although optimists believe this will change. Nigel White, the general manager of Avis in China, says that the rental market, which took about 40 years to mature in Europe, will do so in 10 to 15 years in China. But Avis's big expansion plans (from the current ten rental stations in China to 70 by 2008) are largely driven by demand from businesses with a large share of foreign investment.

The proliferation of glossy car magazines on news-stands suggests the emergence of a culture that worships the car in much the same way as in more developed markets. But Chinese car consumers have distinctive tastes and motives for buying their vehicles. In particular, performance matters less than multiple features and plush interior furnishings. “That's the part that friends and family see”, says Daphne Zheng, a spokesman in Shanghai for General Motors. Video displays on the back seats, wooden fittings and leather upholstery are big attractions.

When an American-style drive-in movie theatre opened in the north-eastern outskirts of Beijing in 1998, it was tempting to imagine young urban Chinese using their new cars as a tool for dating. “Drive-in cinemas are turning hot,” Xinhua reported just last year. Not exactly. The venue remains the only one in the capital itself, though another opened last year in one of the capital's satellite towns. Its 500-car, six-screen capacity attracts, on average, fewer than 100 vehicles a day. Wang Qishun, the manager, says much of his revenue comes from other facilities in the grounds, such as a 200-seat restaurant and a fishing pond.

Even if the Chinese are not turning American in their car-using habits, their new love of motoring has worrying implications for the environment. Most of Beijing's air pollution is caused by cars. The city is often enveloped in a dirty haze, notwithstanding regulations that require cars to meet the European Union's Euro III emissions standards by 2008, in time for the Olympics.

Pollution's haze

The government, aware of this, is spending billions to improve public transport in the big cities. By 2008 Beijing is due to have 200km of underground track, double the current length. Shanghai's underground is due to expand from 80km to 200km by 2010, when the city will host the World Expo; by 2020, the plan is to have 810km, twice the length of London's underground system.

China's rapidly growing dependence on imported oil—one-third of it now for car use—is causing deep anxieties about the country's energy security. Petrol consumption will no doubt be curbed by taxes, better technologies or the use of alternative fuels. But demand for cars will go on surging. Ford's David Thomas estimates there are 450m people in eastern China with a purchasing power of over $7,000 a year; $6,000 is the usual threshold at which car-ownership begins to take off.

Growing losses in the industry, as fierce competition squeezes margins, are not deterring the manufacturers. As Mr Thomas points out, “People's desire, people's purchasing capability, the overall economic fundamentals of the country haven't changed that much.” China has fallen in love with cars; and despite government efforts to cool the passion down, it burns as hot (and as noxiously) as ever.

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Follow the money

What Deep Throat did

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From The Economist print edition

Eyevine

The anonymous source who brought down Nixon has revealed himself. His legacy is immense—and still changing

IN HIS final years, Richard Nixon always bristled when he brooded about it, and he did so a lot. The actions of “The Source”, as he called him—the fallen president refused to accept the term “Deep Throat”—amounted to pure disloyalty. For this reason, Nixon, shoulders ever more hunched, combed through archives. He would tick off names and then immediately dismiss them, for he could never understand what he regarded as such deep betrayal.

One name Nixon floated and dismissed was Mark Felt, the second-in-command at the Federal Bureau of Investigation in the 1970s. He was the man investigating the “third-rate burglary” of the Democratic National Committee headquarters at the Watergate office building in June 1972, which had been ordered by the Nixon White House.

This week, prompted by his family, the 91-year-old admitted to *Vanity Fair* that it was he who supplied most of the secret information to two young *Washington Post* reporters, Bob Woodward and Carl Bernstein, that brought down Nixon's presidency in August 1974, inspired a generation of journalists and created the biggest mystery in American politics for three decades. Mr Felt was tortured by his actions, oscillating between a desire to uphold the integrity of the FBI's case against the White House, and the dishonour of being an anonymous snitch. He even kept his identity from his family until 2002. “I wasn't trying to bring him down,” Mr Felt said about Nixon. Instead, he claimed that he was only doing his duty.

Mr Felt had been fingered before, but as one of many possible people. A 1992 article in the *Atlantic Monthly* by James Mann, a colleague of “Woodstein” as the plucky, lucky duo were called, bet on Mr Felt. The speculation was fuelled in 1999 when a high-school student claimed Mr Bernstein's son, Jacob, had named Mr Felt in 1988 at summer camp, when they were about eight years old. In 2002, Ronald Kessler, a former *Washington Post* journalist, revealed that Mr Woodward had unexpectedly lunched with Mr Felt in 1999, a few months before the 25th anniversary of Nixon's resignation.

Even at the time, some of the president's men had their eye on Mr Felt. “We know who leaked it,” Bob Haldeman, Nixon's chief-of-staff, announced in a meeting on October 19th 1972, caught on the infamous

White House tapes. “Somebody in the FBI?” asked Nixon. “Yes, sir. Mark Felt,” replied Haldeman, adding: “If we move on him, he'll go out and unload everything. He knows everything that's to be known in the FBI. He has access to absolutely everything.” Nixon concludes menacingly: “You know what I'd do with him, the bastard?” But the president didn't finish the thought.

Still, no one, not even Nixon, was sure of Deep Throat's identity. Haldeman died in 1993; Nixon a year later. As other administration officials followed them, it narrowed the field of candidates. The pact between source and reporters was that his identity—according to lore, known only to himself, Mr Woodward, Mr Bernstein and the *Post*'s then-editor Ben Bradlee—would be revealed upon his death.

Facing regular accusations like so many other Nixon-era officials, Mr Felt continually denied the connection. “No, it's not me,'' he told the *Hartford Courant* of Connecticut in 1999, after it published details of the summer-camp encounter. “I would have done better...Deep Throat didn't exactly bring the White House crashing down, did he?”

But Mr Felt did just that—and a lot more. His information kept the break-in alive as a news story. He pushed the reporters, then lowly hacks from the Metro section, to look higher into the administration by imploring them to “follow the money”—which would become an enduring aphorism for the American press. He revealed the White House cover-up, which forced Nixon to leave office before he was impeached. Without Mr Felt's actions and the courage of the *Washington Post's* publisher, Katharine Graham, Nixon would have served out his term.

The consequences of Watergate have been profound. It established the notion of an “independent counsel”, legal protections for whistleblowers, the Fair Campaign Practices Act, the Privacy Act of 1974 and a beefed-up Freedom of Information Act. And it fomented the public's knee-jerk suspicion of government, which continues, for both good and ill.

Its main impact, though, was on the two institutions it set against each other: the presidency and the press. In the aftermath of Watergate, Congress moved to rein in executive power. Meanwhile, Deep Throat reinforced an ethos of tough, investigative journalism (which Vietnam had started) and lent further legitimacy to the use of anonymous sources.

Ironically, the lines are now being redrawn. George Bush has done more to expand the powers of the executive than any president since Nixon (both Dick Cheney and Donald Rumsfeld were scarred by working in the emasculated Ford White House). His administration has also found ways—local TV stations, Fox News, the blogosphere—to get its message across to the public that bypass the “liberal” national media establishment that looks back on Watergate as its finest hour.

Meanwhile, news organisations have been getting into trouble for relying on secret sources. Last month, *Newsweek* was forced to retract a story about the Koran being flushed down lavatories in Guantánamo Bay. Last year, the *New York Times* said it regretted having relied on unnamed Iraqi informants in a series of alarmist stories about Saddam Hussein's weapons of mass destruction. According to the Centre for Media and Public Affairs, the American media's use of secret sources fell by a third between 1981 and 2001, and the *Washington Post* reduced its reliance by 37%.

Mr Felt would seem to be an example of just how necessary hidden sources sometimes are. Laws protecting whistleblowers in government and business, as well as reporters, are woolly. In May, America's Supreme Court was asked to dismiss an order of contempt of court against two journalists, Judith Miller of the *New York Times* and Matthew Cooper of *Time* magazine, who refused to divulge an anonymous government source who disclosed the identity of a CIA operative.

Why did Mr Felt reveal the information? At the time of the Watergate break-in there was a power-struggle inside the FBI between new Nixon political appointees and career bureaucrats who had worked for J. Edgar Hoover and wished to uphold the agency's independence. Turning to the press was the only way that Mr Felt could make public the information crossing his desk that pointed to corruption at the highest levels of government, yet was being culled or changed by Nixon's people.

The result was a series of secret signals between Messrs Woodward and Felt when one needed to reach the other. Meetings took place in a secluded parking garage, which gave Mr Felt a fast escape route. “Everyone's life is in danger,” he once remarked. He has come forward now partly in the hope of earning money to help pay the debts of his grandchildren's education.

Pat Buchanan, a former Nixon speechwriter, called Mr Felt a “snake” this week. Other men in power at

the time have said that Mr Felt should have worked through proper channels. That view is surely wrong. “Watergate is not one thing”, Mr Woodward once said, “it's a mindset.” That justice was in this instance served we have Mr Felt to thank.

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About sponsorship

Traffic

America's great headache

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California shows that road pricing looks the most promising way to stop congestion. But suburban Americans have the traffic they deserve

WHAT is the price of America's love affair with the car? According to a recent “urban mobility study” from the Texas Transportation Institute, it adds up to $63.1 billion a year (plus another $1.7 billion if the latest petrol prices are included) in wasted time and fuel. Most drivers would add an emotional cost in frayed nerves. After all, who wants to spend 44% of their daily commute—the figure for the regions around Los Angeles and Washington, DC—in a crawl?

Most sufferers have no choice. As cities sprawl first into suburbs and then into car-dependent “exurbs”, the daily commute becomes an ever more painful fact of life. According to the Census Bureau, Americans spend more than 100 hours a year commuting to work; and the annual delay for the typical rush-hour traveller in metropolitan areas of more than 3m has grown, since 1982, from 16 hours to 47.

What, if anything, can be done about it? For an answer, look at California, home to 23m licensed drivers and 33m vehicles, and where “you are what you drive”: Arnold Schwarzenegger has gas-guzzling Hummers, while immigrant Mexican gardeners have to make do with decrepit Chevrolet pick-ups. California's network of suburbs and “edge cities” has become the model for much of the growth around the rest of the country.

Big blockers
Ranked by annual delay per traveller, 2003

Very large cities	Hours
Los Angeles-Long Beach-Santa Ana, CA	93
San Francisco-Oakland, CA	72
Washington area, DC VA MD	69
Atlanta, GA	67
Houston, TX	63

Large cities	Hours
Riverside-San Bernardino, CA	55
Orlando, FL	55
San Jose, CA	53
San Diego, CA	52
Denver-Aurora, CO	51

Source: Texas Transportation Institute

According to the Texas researchers, the average driver in LA spent 93 hours stuck in traffic in 2003 (see table). By contrast, a driver in New Orleans spent just 18. Whether it is the ghastly I-405 clogged up around Los Angeles airport, or the I-101 tailback from San Francisco's Bay Bridge, California boasts the worst traffic congestion in the country.

Some consider this a cause for celebration. “Long queues at restaurants or theatre box-offices are seen as signs of success,” says Brian Taylor, director of the Institute of Transportation Studies at UCLA. He thinks congestion “is an inevitable by-product of vibrant, successful cities”. The examples of Paris, London and New York all show he has a point.

His view is not shared by most Californians. Surveys consistently show that two-thirds of the residents of Los Angeles County regard traffic congestion as “a big problem”. By contrast, only two-fifths cite crime. The non-partisan Legislative Analyst's Office reckons that congestion—defined as freeway traffic moving at less than 35mph at peak commuting times—cost Californians some $12.8m a day in time and fuel in 2002. It also added 530 tons of foul emissions to the air.

Hence the search for remedies—each of which comes with its own problems. More **public transport**? Some of America's train and subway systems have been successful, notably San Francisco's BART. But they cost a fortune. Chi-Hsin Shao, a traffic consultant in San Francisco, reckons even light-rail systems cost at least $20m a mile, while going underground can cost more than $200m a mile. The still-puny subway system of Los Angeles has cost $4.5 billion, or some $258m a mile; the city's light-rail system has cost well over $35m a mile.

Greens hope to get at least some of the long-distance passenger traffic out of cars. But the fiasco of the Acela high-speed train system between Washington, DC, and Boston is hardly likely to inspire confidence in a long-standing dream to build a 700-mile (1,100km) high-speed rail system from San Diego to San Francisco (a proposed $9 billion bond issue is slated to go before the voters in November next year).

Public transport works well when there is a central hub—like Manhattan. But the Californian sprawl is “multimodal”: it works on the basis that everybody can go everywhere. Go to the Inland Empire (the suburban sprawl covered by Riverside and San Bernardino counties), the fastest-growing bit of the state, and you find people commuting to Los Angeles, to Orange County, to Pasadena, to Ventura or to any of the burgeoning edge cities within the Inland Empire itself. In 2000, 68% of Californians drove to work by themselves, but the figure rose to 77% for the new neighbourhoods, where half the new houses were built in the 1990s. When the commute gets too long—40 minutes is supposedly the cut-off point—people tend to move either their job or their home.

Driving alone explains why **car-pool lanes** have a limited appeal. High Occupancy Vehicle (HOV) lanes stretch for a mere 1,112 miles of California's freeway system—and are often virtually empty. One idea is Mr Schwarzenegger's decision, still awaiting federal approval, to let fuel-efficient hybrid cars use the HOV lanes whether they have passengers or not.

In the end, virtually all the solutions involve making drivers pay. More realistic fuel prices would make a difference: a gallon of petrol costs around $2.50 in California, compared with $5.90 in Britain. There are some subsidies for greener fuels, but there is no enthusiasm for a carbon tax, even though petrol taxes produce in real terms about one third of the revenue per vehicle mile that they did in 1970.

Road-pricing has been a little more successful. California has a few straightforward **toll roads**, such as state route 73, north of San Diego. But most tax-paying drivers fiercely oppose them. An alternative is the **toll lane**. High Occupancy Toll (HOT) lanes, such as those on state route 91 in Orange County, allow single drivers to drive on them for an extra fee—with the toll collected electronically and varying according to the level of congestion.

Early criticism of SR-91 was that a HOT lane amounted to a “Lexus lane”, favouring the wealthy solo mogul over the blue-collar pick-up-truck driver. In practice, it has worked out more democratically. Mr Taylor says 250,000 drivers have bought the transponders needed for the electronic billing system, and they use them—rich and poor alike—when speed is important.

The paradox, say the sceptics, is that HOT-lanes, like HOV-lanes, may actually increase car use: by freeing up extra capacity on the freeways, they allow more cars to use them. Nonetheless, simply to get at least some people from A to B quickly, it would surely be sensible to make more HOT-lanes available.

Another scheme being mooted in San Francisco is to imitate London and impose a **congestion charge** on drivers who enter the central area of the city. Jake McGoldrick, chairman of the San Francisco County Transportation Authority, calls this “a home run”: it would relieve congestion, lessen pollution and provide money for public transport. Unfortunately, there are relatively few other American cities with the public transport systems in place to follow the London example—and voter opposition would be a near-certainty.

Just stop that

In some cases, fighting congestion does not mean Californians coming up with ingenious ways to prevent

it, so much as stopping doing things that encourage it. Donald Shoup and Michael Manville, colleagues of Mr Taylor at UCLA, point to the way that Los Angeles requires both office and residential buildings to provide parking spaces for their tenants. Whereas New York and San Francisco have strict limits on parking in their central business districts, Los Angeles “pursues a diametrically opposing path”.

Thus, the Louise Davis Hall, home to the San Francisco symphony orchestra, was built without a parking garage; when concerts end, the audience streams out into local bars and restaurants. By contrast, LA's Disney Hall has a six-level, 2,188-space underground garage that cost a hefty $110m. Disney Hall now has to guarantee at least 128 concerts each winter in order to generate enough parking revenue to service the garage's debt. And, when concerts end, the audience drives away, leaving LA's moribund downtown virtually untouched by their presence.

This reflects land-use laws. Under the current rules, for every single job in the central business district of Los Angeles there is 0.52 of a parking space; in San Francisco, there is 0.14 of a parking space for each job; in New York, just 0.06. Last week, a $1.8 billion project to revitalise LA's downtown area around Grand Avenue was unveiled: it envisages offices, a 275-room hotel, up to 2,600 housing units—and as many as 5,500 new parking spaces. Land-use policies help explain why San Francisco County's 2m licensed drivers have a mere 382,000 cars between them, while LA County's 5.9m drivers have 5.9m.

All true. But the main reason why both Disney Hall and the new Grand Avenue developments have huge parking spaces is simple: nobody would go there if they didn't. California is a car culture—as is most of suburban America. Congestion is the inevitable result. Politicians could reduce that congestion by charging motorists more for the petrol they guzzle and the roads they use. But it will only be a change at the margin. Californians have the traffic they deserve.

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About sponsorship

Texan airports

All they need is Love

Jun 2nd 2005 | AUSTIN
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The skies darken over Dallas

THE world's third-busiest airport by movement, Dallas-Fort Worth International (DFW), boasts a fancy new inter-terminal train and is about to open a fifth terminal, for international flights. Love Field, best known (depending on your interests) either as the haunt of stewardesses in hot pants or as the airport where Jack Kennedy landed on the last day of his life, has none of those swank connections; but it is closer to central Dallas. And now it is the centre of a political row, involving two of America's biggest airlines.

At issue is a decades-old legal quirk. In 1979, Congress passed the Wright amendment, named after Jim Wright, the Texan speaker of the House. In order to give a boost to DFW, then a newish airport, the amendment limited flights out of Love Field to Texas and neighbouring states. Since 1997, flights to the tempting markets of Kansas, Alabama and Mississippi have been allowed too. Now two Republican congressmen from north Texas, Jeb Hensarling and Sam Johnson, have introduced a bill that would repeal the amendment, and allow domestic long-haul flights from Love Field.

This would please Southwest Airlines, the low-cost carrier which has made Love Field its north Texan home. At present, its longest flights from there reach only New Orleans and Albuquerque; if the amendment is repealed, it could go to places like Oakland or Tampa. Southwest has set up a populist website, www.setlovefree.com.

American Airlines, which occupies most of the slots at DFW, is throwing a fit, claiming the move would be bad for Dallas. It accuses Southwest of “roaming the halls of Congress seeking special favours”. American, which would not dream of doing such a thing itself, has already secured the support of Joe Barton, the Texan chairman of the House energy committee, who has vowed to stop the bill.

American says that if the Wright amendment were lifted, it would move some of its operations from DFW to Love Field. This would stop Southwest from stealing its business customers, who might prefer the nearer airport. That in turn would hobble American's hub-and-spoke system at DFW. The result would be fewer flights to small Texan towns such as San Angelo and Tyler, and shake-ups to American's international flights, too. All this would harm DFW, Dallas and Texas.

American and its allies would rather Southwest moved to DFW. There are plenty of slots there, now that Delta has closed down its hub. Love Field is not supposed to expand indefinitely: it is limited to 32 gates, 14 of which are now occupied by Southwest. “There is no need for Love Field,” says American's spokesman, adding that Southwest avoids Dallas-Fort Worth because it “can't make as much money as it would at Love Field.”

It is hard to imagine any other industry in America where that would be considered a slur. Nevertheless, the grubby capitalists at Southwest are undeterred. The airline has turned down more than $22m in incentives to move to DFW, because it prefers small airports with fast turnaround times. At DFW, “the average taxi times are about as long as some of our flights,” says Beth Hardin of Southwest. American will take its battle to Congress.

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Southern politics

Tennesleaze

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The state song, the scandal and the Senate seat

AP

Uncle John, in trouble again

EVEN hardened cynics—and many such people who follow Tennessee politics tend to fall into that category—have been surprised. On May 26th, near the end of the state legislative session, four sitting state politicians and one retired legislator were arrested on charges of accepting bribes—from FBI agents, in an elaborate two-year sting operation. The bureau, not usually known for its sense of humour, named the sting “Operation Tennessee Waltz”, after one of the official state songs.

The FBI had set up a fake company, E-Cycle Management, that wanted to buy the state's surplus computer equipment, and was willing to bribe anyone who would help get the necessary legislation written. All four of the sitting legislators had their names on the resulting bill, which was withdrawn on May 25th on a technicality. In the wake of the arrests, several other state congressmen have sheepishly admitted to having received E-Cycle campaign contributions. Others were more defiant. The day after the arrests, John Wilder, Tennessee's lieutenant-governor, led an opening prayer by reminding the Lord that the FBI's tactics were “wrong, and not Your way.”

Three of those arrested—State Senators Kathryn Bowers and John Ford, and former State Senator Roscoe Dixon—are from Memphis. Democrats still dominate state politics, which may explain why only one arrested lawmaker, Chris Newton of Cleveland, is a Republican; he is also the youngest and, according to the indictments, the one who got the least money.

The best known entrapee is Mr Ford, a 30-year veteran who has since resigned his seat. Prosecutors have a videotape that shows him taking $10,000 in cash from an undercover agent and stuffing the money into his pockets. His record includes a sexual-harassment lawsuit, a couple of assault charges and voting against a bill that forbade relatives of congressmen to bid on certain state contracts on the basis that he had “so many brothers and sisters, they won't be able to do anything.”

Actually, the relative with the most to lose from Mr Ford's arrest is his nephew, Harold Ford junior, a congressman from Memphis regarded as one of the Democrats' few bright hopes in the South: he gave the keynote address at the Democratic convention in 2000. In a case of exquisitely awful timing, the younger Mr Ford announced his plans to run for Bill Frist's Senate seat in 2006—Mr Frist has already said he will not seek a third term—the day before his uncle was arrested.

How much damage will the scandal do to the Democrats? Mark Byrnes, a professor of political science at Middle Tennessee State University, points out that the rest of the state looks on bluesy, messy Memphis “as if it's a foreign country” anyway. If voters in the rest of the state like the hopeful, centrist Mr Ford junior, then he may be able to distance himself from his family—although publicity from any upcoming trials will make that difficult.

An even bigger target for the Republicans would be Phil Bredesen, the popular governor, who has been mentioned as a presidential candidate. But he has not been implicated in the scandal. And it will be hard for the Republicans to call the scandal unprecedented. One of Mr Bredesen's predecessors was replaced three days before his term officially ended in 1979 because he was under suspicion of selling pardons; and in 1989 “Operation Rocky Top,” another FBI probe named after a state song, saw several politicians

accused of taking kickbacks from professional gambling rings.

But the Democrats will have plenty of explaining to do—not least because the legislature wrapped up its session last week without passing either of two ethics bills that would have forced lobbyists to disclose more about their spending. At the moment, plenty of groups with generic, unrevealing names appear on campaign contribution lists. Mr Bredesen is said to be mulling a special legislative session to concentrate on ethics bills. In the meantime, Tennessee has three more state songs left for future FBI stings.

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About sponsorship

New Jersey's primary for governor

And Corzine's round the corner

Jun 2nd 2005 | WEST LONG BRANCH
From The Economist print edition

A battle the Republicans should win this year—but probably won't

IT HAS been a rough year for New Jersey Democrats. Governor Jim McGreevey resigned last summer after the revelation of a gay affair. There has been no end of corruption circles: one of their main moneymen was charged with hiring prostitutes to silence a witness in a criminal investigation. The budget is bust, property taxes are the highest in the nation, and, as the party that controls the governorship, both houses of the legislature, both Senate seats and seven out of the 13 congressional seats, they can hardly blame anybody else.

So you would imagine that the Republicans' spirits would be up. Yet as they approach next week's primary on June 7th for the governor's race, the local party suffers from a lack of funds, organisation and morale. This has something to do with the weaknesses of the Republican candidates; and a lot more to do with Jon Corzine—and his money.

The popular senator (and former chairman of Goldman Sachs) is all but certain to become the Democratic nominee: his only rivals in the primary are a schoolteacher and an unemployed former congressional candidate. Having never served in the state party, Mr Corzine is hard to link to the current scandals (though Republicans point out that he has given $5m to the party bosses). And he has promised to do whatever it takes to become governor—a powerful threat coming from a man who spent $60m, much of it his own cash, on his successful 2000 Senate campaign.

The two Republican frontrunners, Bret Schundler and Doug Forrester, have both gone down to big defeats in previous state-wide elections; and the current contest, which also includes another five candidates, has made it hard for either man to get his message across. In principle, Mr Schundler, a hard-nosed former mayor of Jersey City, looks more up to the job. He won national acclaim for turning round New Jersey's second-biggest city, and he is the tougher debater. The carefully-coiffed Mr Forrester, a millionaire businessman and former small-town mayor, looks less of a bruiser.

Mr Schundler's problem—rare for a Republican in a primary these days—is that he is too conservative. In his last race against Mr McGreevey, he lost by talking about his opposition to abortion and gun-control; in New Jersey, many Republicans favour such things and even some of the ones who don't worry that Mr Corzine will exploit them. Mr Schundler has tried to steer the debate away from abortion this time round, but Mr Forrester has cleverly fashioned himself as a centrist problem-solver (“I'm a businessman,” he chirped in a recent debate, “I can do this.”) And, like Mr Corzine, he has deep pockets: so far, he has poured nearly $9m of his own money into the race.

Much of the campaign has been spent discussing property taxes. Mr Forrester is peddling a 30% property tax-cut over the next three years; he will pay for this supposedly by chopping $3 billion of “waste, fraud and abuse” out of the budget. Mr Schundler predicts, probably correctly, that his opponent's inventive mathematics will be torn to shreds by Mr Corzine. Yet Mr Schundler's own solution—capping state spending and sending the money to local government to reduce the hated property taxes—rests on getting the Democratic legislature to put two constitutional amendments on the ballot in November.

Mr Forrester had a 40%-29% lead among likely Republican voters, according to a Quinnipiac University poll, released on June 1st. But a lot will depend on turnout. Mr Schundler has a core of conservative supporters who will make it to the polls, come rain or shine. Whoever wins, most Republicans must be cursing their luck that Mr Corzine is the Democrat they have to fight this year.

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Agriculture

To bee or not to bee

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From The Economist print edition

That is the question for many American farmers

HONEY is not all bees are good for. About 60% of all food consumed in America has a bee connection. Without bees, the country would lose about $20 billion in crops—almonds, citrus fruits, pears, cucumbers and apples—from plants that are not self-pollinating.

But bee numbers are declining fast. The varroa mite, a bee parasite first found in Java a century ago, spread to America in 1987 and has recently taken hold (as it has in many other countries). It sucks the blood of both wild and cultivated bees, and has now become immune to pesticides. This year, the steady loss of bees—their numbers have fallen by about 50% in six months—has especially hurt the Californian almond industry, which accounts for 88% of the world's almond crop. Farmers think yields may fall by as much as 16%.

Honey bees landed in the colonies, from England, at about the same time as the Pilgrim Fathers. Soon “the white man's flies”, as the Indians called them, generated a thriving industry. Not so of late. In recent years bees have suffered not only from mites, but from fewer commercial beekeepers; cheaper imported honey means lower profits. Bee experts admit that if the business is to survive, apiarists, who simply love bees and typically have fewer than 25 hives, will have to pick up the slack, along with the federal subsidies.

The shortage of Californian hives has led some beekeepers from as far away as Arkansas and Florida to lease their hives, sometimes at double the average cost. Californian farmers are certainly willing to pay to save the remainder of their crops. They have also created natural areas, in the middle of row crops, to attract whatever bees are still flying.

Some beekeepers have hopes of breeding a mite-resistant Russian bee. Northern beekeepers have been wintering their hives in warmer places. In North Carolina and Kentucky, former tobacco farmers are learning the secrets of bees in programmes funded with tobacco-settlement money. North Carolina State University offers free hives to encourage budding apiarists. And various bee symposiums have taken place across the country: one recent one in Mississippi drew more than 100 people.

Last month, Michael Warriner, a bee guru working for the Arkansas Natural Heritage Commission, decided to launch a citizen bumblebee survey to monitor the state's seven types of bumblebees in gardens and natural sites. A similar survey in Britain, he points out, found that half the country's bees are near extinction. With the study, and with luck, experts should be able to note the decline of bees before an emergency arrives in Arkansas, at least. So far, almost 250 people have signed up to track them.

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Lexington

The frog and the ox

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Americans are finding it hard to understand what is going on in Europe

THERE is a nice variant of one of Aesop's Fables which goes like this. A tiny frog shares a field with a giant ox. The frog tries to get the ox's attention by puffing himself up. The ox fails to notice the frog. The frog puffs himself up some more. The ox continues not to notice him. The frog finally puffs himself up so much that he explodes. But the ox still doesn't notice him.

Something much like this happened last Sunday. Many of the supporters of the European constitution nourish dreams of creating a United States of Europe. Valéry Giscard d'Estaing, the constitution's leading light, frequently spoke of his admiration for the American constitution. But the American reaction to the French *non* vote was a giant yawn. The news networks gave as much priority to the simultaneous vote in Lebanon, and both elections seemed less important than the result of the Indy 500.

Most of the excuses for ignoring the French vote are perfectly understandable. The results were released in the middle of a sunny Memorial Day weekend. The constitution is a turgid document that few Europeans have read, let alone Americans. Supporters like Jacques Chirac claimed that it was a bulwark against American-style capitalism; opponents like Jean-Luc Melenchon that it was “the law of the jungle turned into a constitution”. Eurocrats, implausibly, claim that they will continue to ratify the constitution whatever the people say.

There is a widespread feeling in America, too, that Europe doesn't matter any more—or at least that America doesn't have a dog in Europe's internal fights. The polite version of this sentiment is that Europe is a problem that has been solved. The continent is peaceful, prosperous and civilised. America's vital interests now lie elsewhere—in tackling terrorism and managing the emergence of China. The less polite version is that Europe is a spent force, with slow economic growth, death-spiral demographics, unaffordable welfare states, simmering Muslim populations and little ability to project power abroad.

Europe is clearly not as important as it thinks it is: that would be impossible. Yet America's indifference to it is wrong. It remains America's biggest trading partner and closest ally. Two-thirds of America's

foreign investment since 2000 has gone to Europe. For all their problems, the EU and America work closely together in steering the world's economy: China is too undeveloped and Japan has failed to assume a leadership position. Since coming to office in 2001, George Bush has spent more time in Europe than anywhere else abroad—44 days, compared with 13 in Asia. And since being re-elected in 2004 he has put heavy emphasis on repairing the European relationship. For good reason: American action abroad is easier if Europe approves of it.

Which makes it all the more striking that so many of the people who did pay attention to the European result, including some close to Mr Bush, were positively gleeful. Many conservatives broke their self-imposed embargo on French products to pop the champagne. The *grand non* didn't just mean the humiliation of Mr Chirac, the *grand fromage* in the Axis of Weasel. It meant the humiliation of a political class that has been a thorn in the side of America since the second world war. Right-wing blogs crowed about the imminent collapse of Eurosocialism. One even produced a map of the “red” parts of France that had voted “no”—and noted its similarity with the 2004 map of the “red” parts of America that had voted for Mr Bush.

It would be churlish to deny the White House some pleasure. But that does not mean following those conservative mapmakers all the way to their eccentric conclusions. The no vote was driven by the most backward forces in France—the enemies of globalisation and Americanisation. And Mr Chirac promptly gave the prime ministership to Dominique de Villepin, an exponent of anti-Americanism in its most self-indulgent form.

The only serious justification for Americans to delight in the EU's plight would be if last weekend had frustrated the emergence of a European counterweight to American power. Yet that was always surely a fantasy, given both the continent's refusal to spend a significant amount of money on defence and its unstable relationship with other possible members of a “counterweight coalition”. In reality, a weak Europe is much more of a threat to America's interests than a strong one. The no vote not only guarantees several more years of Eurodithering and introspection: it also makes it much less likely that Europe will be able to absorb Turkey, let alone Ukraine, anytime soon, if ever.

Why America needs a stronger Europe

The most sensible American response to Europe's failure is to see it as an opportunity. An opportunity that is fraught with risks, to be sure, but one that would allow Europe to start down a more sensible path, and would let America nudge it in a more Anglo-Saxon direction. Bill Kristol, a leading neo-conservative, likens the French *non* to the rise of Ross Perot. Perotism was noisy, confused and full of unpleasant elements. But it showed that people were no longer willing to tolerate the old order, and it prepared the way for the rise of Bill Clinton on the left and Newt Gingrich and Rudy Giuliani on the right.

There are signs that a similar revolution is stirring in Europe. There is a good chance that Mr Chirac will be replaced in 2007 by Nicolas Sarkozy, who claims to be more of a fan of the free market; and an even better chance that Gerhard Schröder will be replaced this September by Angela Merkel, a woman who backed the invasion of Iraq. The shake-up gives America an opportunity to find new friends and collaborators in Europe.

Yet the paradox of America's European policy is that it only has a chance of influencing Europe if it is seen to be doing nothing. America needs to do what it can to make sure that the frog doesn't explode again. But in public at least, the ox needs to give the impression of being indifferent.

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Brazil

Lula's mid-term blues

Jun 2nd 2005 | SÃO PAULO
From The Economist print edition

Reuters

Problems familiar to his predecessors are dogging Brazil's left-wing president

Get article background

SCANDAL, receding popularity and sagging economic growth are not the best preparation for an election. For the moment, at least, Brazil's president, Luiz Inácio Lula da Silva—who hopes to win a second term in office in a vote due in October 2006—is suffering all three. His government is fighting a losing battle to suppress a probe by Congress into corruption allegations. Figures released this week showed that after months of rising interest rates the economy grew a mere 0.3% in the first quarter of 2005, its slowest quarterly rate since 2003. Unsurprisingly, Lula's popularity, though still high, is slipping.

This dose of bad news is not in itself fatal to the president's electoral prospects. But it threatens to cripple his government, an ill-tempered coalition of left-wing, centrist and conservative parties.

Last month, *Veja*, a weekly magazine, published excerpts from a videotape showing a manager of the federal postal service taking a bribe. He claimed to belong to a bribe-collecting network headed by Roberto Jefferson, the boss of the Brazilian Labour Party (PTB), a member of the governing coalition. Mr Jefferson denies wrongdoing. The bribe-taker has since recanted. But allegations keep coming. Federal police are investigating charges that the state-owned reinsurance monopoly has funnelled money to a brokerage headed by a friend of Mr Jefferson.

Veja likens Mr Jefferson to a “human bomb” under the government. If so, he has not yet detonated. But Lula has reasons to worry. His own Workers' Party (PT) cannot avoid looking sordid by association. Many governments in Brazil have had to depend in Congress on rent-a-parties such as the PTB, which seek to reward followers with state jobs and pork-barrel spending. But milking public companies is a graver matter. People expected better of Lula's government. In opposition he righteously demanded inquiries into lesser scandals.

This time he has tried, but so far failed, to smother the inquiry. That is the latest in a string of congressional defeats inflicted not only by his coalition partners but also by rebellious members of the PT itself. In the lower house, 14 of the PT's 91 deputies signed the measure authorising the inquiry, along with nearly 80 others from supposedly allied parties. The government is now challenging the inquiry on constitutional grounds. If that fails, it will hope to guide its course.

Some damage has already been done. According to Sensus, a polling firm, Lula's approval rating has fallen to 57.4%, down from 66% in February. More than half the respondents—“a very high number for such a specific question”, in the view of the pollster, Ricardo Guedes—knew about the scandals. The government's approval rating slipped, too, to 40%. At 30%, pundits say, Lula's re-election would look dicey.

People expected better of Lula's government

So the last thing he needs is a buckling economy. The central bank's battle to contain inflation by raising interest rates has chilled investment, already feeble, which dropped 3% in the first quarter. São Paulo's powerful industry federation warned of an “imminent risk of recession.”

That is unlikely. The government has agreed a generous rise in the minimum wage, lifting other salaries and pensions linked to it. Public spending, unusually slow in the first four months of 2005, will probably quicken. There has been good news, at last, on inflation: an index that blends retail and wholesale prices dropped 0.22% in May, stirring hopes that the central bank will stop raising rates. A healthy trade surplus is partial protection against a rise in American interest rates, which could send the *real* tumbling and inflation shooting up again.

Even so, the government is likely to remain at bay in Congress. A cabinet reshuffle might help. Coalition partners complain that the PT has shared too little power, while the PT's left wing harangues the government for pandering to conservatives. Aldo Rebelo, the government's embattled political co-ordinator, claims that it has an “almost consensual agenda”. This includes simplifying taxes, a reform of trade unions, and changes to regulatory agencies. Congress-watchers doubt much of this will get through. “As far as the major legislative agenda, this government has already ended,” says Sérgio Abranches, a political analyst.

That is disappointing rather than dire. Investment, and thus economic growth, may remain stunted. But the government is unlikely to abandon fiscal and monetary caution, which has spared the economy a full-fledged crisis. There is little sign that Lula plans reforms to correct the flaws in the bureaucracy and political parties that lead to political appointees pocketing bribes. Rather, he seems to be hoping that by the time the election comes, voters will have forgotten about them.

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Canada's public finances

From deficit slayer...

Jun 2nd 2005 | OTTAWA
From The Economist print edition

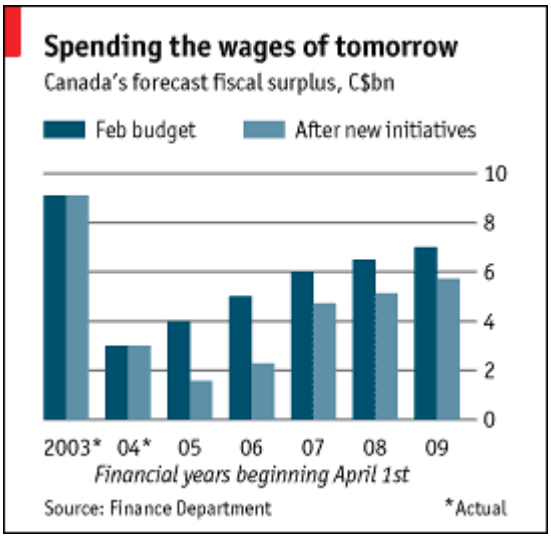
...to drunken spender?

Get article background

IN NEARLY a decade as Canada's finance minister until 2002, Paul Martin earned a reputation as a steadfast slayer of fiscal deficits. He ended a quarter-century of federal overspending, turning the public finances from red to black. But as the prime minister of a tottering Liberal minority government since last year, he appears to have thrown fiscal restraint to the wind.

Barely a day has gone by this spring without a new federal announcement of funding for education, housing, the environment and other social programmes. They are all calculated to appeal to voters in an election expected before next March—if the scandal-rocked government can last that long.

Stephen Harper, the leader of the Conservative opposition, accuses Mr Martin of spending “like a drunken sailor”. He says the extra promises total C$23 billion ($18 billion). No, just C$9 billion of new money, retorts Ralph Goodale, the finance minister. Regardless of who is right—the truth may lie somewhere between the two—Mr Martin is increasingly being asked: can Canada afford it?



Yes, according to the prime minister. Last month, he told a gathering of business leaders that although some of them thought he had “lost it” and “gone over to the dark side”, he has no intention of spending the government back into deficit.

Figures released with this year's budget appear to back him up (see chart). They show projected budget surpluses over the next five years totalling C$28.5 billion. Even if Mr Harper's estimate were correct, the government could easily meet it.

It helps, too, that the economy looks robust. Inflation and interest rates are both low. Canada's GDP grew by 2.8% in 2004. Figures released this week showed growth slipping to 2.3% (at an annualised rate) in the first quarter. That is lower than some private forecasts but in line with that of the Bank of Canada, which sees growth picking up later to reach 2.5% for the year. Companies have reported an average increase in after-tax profits last year of 12%.

Even the appreciation of the loonie, as Canadians call their dollar, against the American greenback has not knocked the economy from its stride. The soaring loonie has kept interest rates and inflation in check. Manufacturers exporting to the United States have suffered. On the other hand, strong demand from China has helped Canada's exports of raw materials.

So why is there so much hand-wringing about Mr Martin's spending? First, the finance department's fiscal forecasts are legendarily inaccurate. Having underestimated past deficits, officials—and the private-sector economists who provide them with projections—have been consistently pessimistic about future surpluses. But some worry that this could change.

The bigger concern is that Mr Martin is giving away not money already in the kitty but future revenues. Those crying loudest—provincial premiers, businessmen and the Conservatives—had other plans for the loot.

Some C$4.5 billion of the extra spending was the price that the leftish New Democrats extracted for agreeing to support the government for a few months. That enabled Mr Martin to defeat an opposition no-confidence motion last month. But it outraged businessmen clamouring for the tax cuts which Mr Martin has agreed to shelve. According to the CD Howe Institute, a business-friendly think-tank, Canadian firms face higher corporate taxes than their American counterparts in every industry except mining and oil. Finance officials dispute these numbers.

The provincial premiers are also keen to take advantage of Mr Martin's desperate straits. Some already have. The Atlantic provinces won a deal that their earnings from offshore oil and gas would not be taken into account in calculating federal payments to equalise social services across the country. Last month Ontario's premier, Dalton McGuinty, wrested an extra C$5.8 billion from Ottawa for education, housing and infrastructure. This autumn, the premiers plan to gang up to force Ottawa to fix what they call the “fiscal imbalance”. A few billions of federal dollars will doubtless do the trick.

With demands coming from every quarter, Mr Martin must yearn for his days as finance minister. Then he would turn down supplicants, saying that while he would like to help them, his boss, Jean Chrétien, would not let him. In the top job, Mr Martin has nobody else on whom to heap the blame.

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Argentina's president

Political wife and weapon

Jun 2nd 2005 | BUENOS AIRES
From The Economist print edition

The first lady of Peronism

Reuters

Get article background

UNTIL 2003, when he became Argentina's president and she became its first lady, Cristina Fernández de Kirchner was at least as well-known and powerful a politician as her husband Néstor. Currently a senator for Santa Cruz, the couple's thinly populated home province in Patagonia, she is now Argentina's best-liked politician. It seems she is also to be the chief weapon in her husband's battle for control of the ruling Peronist party.

In a congressional election in October, Ms Fernández is almost certain to run for re-election to the Senate, but from Buenos Aires, the country's largest province and home to 40% of its people. That amounts to a gamble for high stakes. For more than a decade, the Peronist machine in the province has been controlled by Eduardo Duhalde, who as Argentina's president in 2002-03 helped Mr Kirchner rise from obscurity to replace him.

Ms Fernández could expect to romp to victory in Buenos Aires. That is partly because Mr Kirchner's control of the federal purse has helped him build his own base in the province. But his wife has yet to say whether she will stand there. She is waiting on negotiations between her husband and Mr Duhalde, who has traditionally chosen the party's candidates in the province. Mr Kirchner has so far treated his former patron with caution. But Mr Duhalde's provincial power base is one of the few residual threats he faces.

As well as his wife's run for the Senate, Mr Kirchner is now demanding the right to nominate 70% of the Peronist candidates for Congress in Buenos Aires and 30% of those for the provincial legislature. If Mr Duhalde accepts, he would at least retain his grip on the local legislature, though his national standing would be reduced.

Mr Duhalde might yet demur, and nominate his own wife, Hilda, for the Senate race. That would be risky. Ms Fernández would probably run as an independent. Polls suggest that she would trounce Mrs Duhalde, by as much as 42% to 14%. This would damage Mr Duhalde's local candidates. And splitting the Peronist vote might give a chance to the opposition.

Mr Kirchner has amassed formidable influence over Argentina's courts, media, legislature and provincial governors. That is the tradition among Peronist leaders, but it seemed unlikely when he limped into the Casa Rosada with just 22% of the vote in 2003. While some Argentines worry about this, most do not. They credit Mr Kirchner—whose government this week agreed a big increase in the minimum wage—with economic recovery after the collapse of 2001-02. Even so, the congressional election may give the scattered opposition a chance to exploit a slowing economy and rising inflation. All the more reason, perhaps, for the first couple to tighten their grip on Peronism.

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The Inter-American Development Bank

After Iglesias

Jun 2nd 2005
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In search of a candidate

EVER since 1988, Enrique Iglesias, a former Uruguayan foreign minister, has been a reassuring presence at the head of the Inter-American Development Bank (IDB). On May 28th Mr Iglesias was named as the first head of a new permanent secretariat for the Ibero-American summits (annual get-togethers of Latin America with Spain and Portugal). His long-expected departure opens what could be a bruising battle to head the IDB, which lends some $7 billion a year to Latin America.

Three main candidates have emerged. Brazil wants João Sayad, a São Paulo banker and economist who is a vice-president of the IDB. But he is little-known outside his country. And Brazil's new international assertiveness raises hackles elsewhere. The United States is backing Luis Alberto Moreno, Colombia's able ambassador in Washington.

The IDB's head must be approved both by a majority of shareholders and by at least 15 countries in the Americas. That gives both the United States, which has 30% of the shares, and Latin America, if it is united, a de facto veto. The Bush administration may block Mr Sayad, whom some see as too left-wing. But since Mr Moreno will be seen as Washington's man, he may struggle to get enough Latin American votes.

That may open the way for Enrique García, an experienced Bolivian who heads the Andean Development Corporation, a sub-regional bank. Dark horses are Francisco Gil, Mexico's finance minister, and Roberto Daniño, a former prime minister of Peru who is the World Bank's general counsel.

All are solid, but none has the stature of the (perhaps too) durable Mr Iglesias. He earned the trust of American officials but seemed equally at home in a Brazilian *favela*. He managed to keep a foot in both camps of the debate about the “Washington Consensus” reforms.

The Bank's shareholders might do well to cast their net wider. Two men spring to mind. Pedro Pablo Kuczynski, Peru's economy minister and a former investment banker with presidential ambitions in his country, and Ernesto Zedillo, Mexico's former president who has withdrawn to academic life at Yale. Both might take persuading. But both are liberal reformers with the credentials and international experience to be worthy successors to Mr Iglesias.

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Crime in Mexico

Lessons from Juárez

Jun 2nd 2005 | CIUDAD JUáREZ
From The Economist print edition

Impunity and killing women

Get article background

WITHIN two days last month, two young girls were abducted, raped and murdered in Ciudad Juárez, a city of 1.2m people jammed against Mexico's border with the United States. In the following fortnight, another four women were killed in the city. In all, some 340 women and girls have suffered violent deaths in Juárez over the past dozen years. The toll so far this year is 18, as many as in the whole of 2004. That dashed official hopes that the problem was on the wane.

The latest horrors prompted marches and protests in Juárez. They have also given new urgency to debate about who is killing women and why. Some of the deaths are the result of domestic violence, some are crimes of passion or for robbery. But at least 90 of the killings seem to have had a sexual motive. That has led to lurid hypotheses, of serial killers, “snuff” movies, and/or macabre initiation rites practised by organised rings linking local drug-traffickers, police and politicians.

Human-rights groups talk of the killings as “feminicide”, or hate crimes. “They kill them because they are women and because they are poor,” says Esther Chávez, who runs Casa Amiga, a counselling centre. Many of the victims worked in *maquiladora* factories and lived in the shanty towns that stretch out into the desert gulches to the west of the city.

Certainly, what the killings have in common is that they have not been properly investigated. Human-rights groups believe that the men imprisoned for the sexual crimes are innocent, and were tortured into confessing. “There is an organised group,” says Óscar Máynez, a criminologist at the Autonomous University of Juárez. “I don't know if it's still operating but there's nothing to stop it. The authorities don't want to recognise this.”

Last year the federal government named a special prosecutor to review the cases. She charged 103 local officials with negligence, but has no power to order fresh investigations. This week she was replaced—a move criticised by women's groups. Mexico's president, Vicente Fox, also appointed a special commissioner for Juárez. Her job is to co-ordinate action by local, state and national authorities and mobilise federal funds to tackle the city's social problems. Last year, 1,200 federal police spent six months in the city, while the local force has been re-organised. The federal government is putting money into new parks; in the shanty towns, some roads have been paved.

Officials accuse human-rights groups of exaggerating Juárez's problems. “There's no reason to tar the city with this mud,” says Hector Murguía, the mayor. On May 31st, Mr Fox accused the media of “reheating” old crimes, and blowing them out of proportion. But despite the work of the commissioner, there are still two Ciudad Juárezes. One is a safe and successful business hub, with new industrial parks, shopping centres and housing estates for managers. The other is a city overrun by migrants and a powerful gang of drug traffickers, and devoid of public services.

But sadly, violence against women in Juárez may indeed not be exceptional. Ricardo Sepúlveda, an Interior Ministry official, points out that academic research has found that 97% of crimes in Mexico go unpunished. Under the long rule of the Institutional Revolutionary Party until 2000, the role of police and prosecutors was not to investigate crime but to control it and profit from it. Mr Fox's government drew up a bill to reform criminal justice. But this languishes in Congress. Until the police have the training and incentives to enforce the law, rather than collude in breaking it, killings will continue.

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Islam in Malaysia

Debating Islam

Jun 2nd 2005 | KUALA LUMPUR
From The Economist print edition

AP

Moderates and radicals fight it out—peacefully

Get article background

WHEN Robert Zoellick, America's deputy secretary of state, recently described Malaysia as a potential model for fledgling democratic regimes in other Muslim places like Iraq and Palestine, he was not, presumably, referring to its Islamic police. In an infamous episode earlier this year, officers of Kuala Lumpur's religious department raided a nightclub, arrested some 100 patrons for ungodly acts such as consuming alcohol and dressing immodestly, and carted them off in paddy-wagons. The episode, although unusual, highlighted how many Islamic strictures remain on the books—and how uncomfortable that makes many Malaysians.

“We are a very moderate Islamic country,” Abdullah Badawi, the prime minister, recently declared. On the whole, he is right. Although Muslims are in the majority, and Islam is the official religion, large Buddhist, Christian and Hindu minorities are free to worship as they please. The government, which includes many non-Muslims, tends to concentrate more on the economy than on matters of morality. Kuala Lumpur, in particular, is a cosmopolitan and tolerant place, where the sexes mingle freely, and profane items such as pork and alcohol are in plentiful supply.

Yet religion remains an awkward subject in Malaysia. Malay Muslims have lived in the area and practised Islam for centuries. During the colonial period, however, large numbers of Chinese and Indians, non-Muslims for the most part, settled in the country. The authors of Malaysia's constitution tried to strike a balance between Malays, who felt that they and their religion should enjoy pre-eminent status in their traditional homeland, and minorities, who were worried that they would become second-class citizens. The result is a document that guarantees individual freedoms, while according Islam a special status. Muslims, for example, can proselytise freely, whereas non-Muslims cannot attempt to convert Muslims. Muslims also have their own, Islamic court system to adjudicate in matters of personal law, while non-Muslims are consigned to the normal, secular courts.

Non-Muslims gripe that the government spends too much money building mosques and promoting Islam.

They also claim that the Malays who dominate the bureaucracy sometimes make life difficult for them, by withholding the permits needed to open a new temple, say, or by obstructing the import of religious tracts. In 2003, for instance, over-zealous officials attempted to ban a translation of the Bible into an indigenous language of eastern Malaysia—although Mr Badawi rescinded the order a few weeks later.

But there are also many Muslim critics of Malaysia's Islamic justice system. Muslim women's groups were up in arms in 2002, when the government of the state of Perlis made it easier for Muslim men to take a second wife, by scrapping a rule requiring the first's consent. Over the years, state governments (which have authority over matters of religion) have expanded the scope of Muslim personal law beyond questions of marriage and inheritance, in order to curry favour with Islamically minded voters. Most have enacted laws banning Muslims from drinking alcohol, and other forms of “indecent behaviour”.

It was on the basis of such a law that Kuala Lumpur's religious officers raided Zouk nightclub in January, and arrested the Muslim patrons while allowing non-Muslims to go free. The city's well-to-do Muslims, unaccustomed to government interference in their private lives, kicked up a stink, as did the local media. Amid all the furore, angry Muslim moderates turned up all manner of intrusive state laws, barring Muslims from expressing deviant views, contradicting religious leaders and even smoking. They demanded that the government should review all these laws, and scrap those that infringed on their constitutional freedoms.

The government's response to this outcry has been ambiguous. It did issue new regulations trimming the powers of the religious officers. It is also encouraging Malaysia's 14 states to adopt a uniform Islamic code. But in general, the ruling United Malays National Organisation is reluctant to hand the Pan-Malaysia Islamic Party (PAS), its chief rival for Malay votes, any opportunity to denounce it as un-Islamic. Wan Ahmad Farid Wan Salleh, an adviser to the prime minister on religious matters, cannot even bring himself to reject outright the idea of an Islamic criminal code, complete with amputated hands. He argues instead that the time is not right.

Meanwhile, Mr Badawi is trying to shift the focus of the debate by promoting an alternative vision of Islam, which he calls “Islam Hadhari”, or civilisational Islam. It stresses the moral value of education, economic development, and protection of minorities, as a counterweight to PAS's narrow emphasis on dogma. “You can be cosmopolitan and Islamic at the same time,” insists Mr Wan Farid. Moreover, he says, Muslims who stray from the faith should be brought into line by persuasion, rather than coercion.

Civil libertarians, however, dismiss Islam Hadhari as an attempt to fudge the issue. What about those Muslims who do not want to be brought into line, asks Malik Imtiaz Sarwar, a lawyer. He points to several cases involving Muslims who seek to convert to other religions. Islamic courts label them apostates and pack them off to rehabilitation camps. But the civil courts have so far avoided ruling on whether the constitution's guarantee of freedom of religion extends to Muslims seeking to leave their faith. That, Mr Imtiaz argues, is too controversial an issue for judges or politicians to tackle—even in model Malaysia.

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Thailand

Not yet reconciled

Jun 2nd 2005 | BANGKOK
From The Economist print edition

But at last the government is listening

Get article background

OVER the past 18 months, the government of Thailand has tried almost everything to end the violence that has plagued its three southernmost provinces. It has put the police in charge; it has put the army in charge; it has instituted a joint command shared between the two. It has boosted troop numbers; it has reduced them. It has promised funds for development; it has threatened to withhold them. It has declared martial law; now it is seeking to rescind it. But its most successful measure to date has also been the simplest: passing the buck. Earlier this year, it set up an independent panel, the National Reconciliation Commission (NRC), to recommend steps to stem the conflict. So far, the NRC looks defter than its creators.

The three provinces of Pattani, Yala and Narathiwat once formed the heart of an independent Malay Muslim sultanate. By an accident of colonial history, they were separated from Malaysia, with which they share language and religion, and ended up part of Thailand, with its Thai-speaking, Buddhist majority. Separatist tension has flared on and off for decades, but came to the fore once more in January 2004, when Muslim militants overran a military arsenal and stole all the weapons. Since then, the region has suffered violent incidents almost daily, including bombings of government offices, arson attacks on schools and assassinations of officials, soldiers and Buddhist monks.

The government has floundered in the face of this insurgency. A provincial police chief, when asked how he could improve matters, admits he has no idea. “We are like the Americans in Vietnam,” says a soldier. “By day the local people are our friends, but at night they shoot at us.” Frequent changes of policy, and reshuffles of police and army commanders, have added to the confusion. Frustrated soldiers and policemen, in turn, have lashed out at locals: last October, in the district of Tak Bai, the army killed 84 demonstrators during a protest against arbitrary arrests.

The conflict, argues the head of a local Islamic school, is like a plate of *nasi kerabu*, a Malay dish with many ingredients. Although Muslim separatist sentiment may contribute to the violence, so does heavy-handed repression by the security services, rivalry between the police and army, government neglect, political score-settling, drug-running, arms-smuggling and so on. Anand Panyarachun, the head of the NRC and a former prime minister, agrees. He estimates that as many as half the incidents in the south

are ordinary crimes mistaken for something more sinister.

So far, the NRC has recommended that the government lift martial law, drop the charges it is pressing against many of the survivors of the demonstration at Tak Bai, and make public the results of an inquiry into the incident. The government has accepted those suggestions with unusual humility. Mr Anand is also airing some more controversial ideas, including a measure of autonomy for the three provinces. He believes that the authorities, and Thais in general, must be less dismissive of Muslim claims of ill-treatment, and more open-minded about how Thailand should be run. By that measure, the very creation of the NRC is a good start.

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Uzbekistan and China

The dragon and the tyrant

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From The Economist print edition

Blood and oil

Get article background

THE two pieces fit together with an unpleasant neatness. First, on May 24th, came China's glowing praise of the massacre in Andijan as a just crackdown by Uzbekistan's president, Islam Karimov, on the “three evil forces” of terrorism, separatism and extremism. Next day, as Mr Karimov visited Beijing, came the news that China and Uzbekistan were to sign an oil deal worth $600m. The joint venture between China National Petroleum Corp and Uzbekneftegaz lay at the heart of an agreement to establish a “friendly, co-operative partnership”. The message was loud and clear: when it comes to quenching its thirst for energy resources, China is more than happy to support other murderous tyrants.

Not that China's stance was unexpected. Beijing's own oppressive nature aside, the Sino-Uzbek relationship has been a warm one for some time. Last June, President Hu Jintao travelled to Tashkent for a meeting of the Shanghai Co-operation Organisation (SCO). The organisation (which also includes Russia, Kazakhstan, Kirgizstan and Tajikistan) is designed to address regional security concerns and foster trade between the members. Nor is Uzbekistan the first authoritarian regime where China has sought to protect its investments. After similar energy deals with Sudan and Iran, it vowed to veto any action that the UN Security Council might seek to take against them.

China has a successful track record in propping up nasty regimes—Myanmar and North Korea come to mind—and its interests in Uzbekistan must bode well for Mr Karimov. Even if the West were to sever all links with him, his burgeoning commercial and technological co-operation with China might well prove sufficient to sustain him.

In the long run, though, China's support of Mr Karimov may prove counterproductive. Sooner or later, whether through revolutionary upheaval or the passage of time, Mr Karimov's rule will come to an end. When it does, Uzbeks will not remember China's support of the Andijan massacre kindly. Mr Hu may yet find that his authoritarian counterpart makes an unfortunate friend.

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South Asia textiles

On the sidelines

Jun 2nd 2005 | DELHI
From The Economist print edition

China has won; but so far, South Asia has not lost

AS CHINA squares up to America and the European Union over its surging exports of textiles and clothing, the countries of South Asia are more than just interested bystanders. As a global trader, even the biggest of them, India, is dwarfed by China. But most rely on textiles and clothing for a higher proportion of their manufactured exports than China does. So the lifting at the beginning of this year of textile-import quotas in Europe and America brought both an opportunity—to exceed quota levels—and a risk of loss of market share to a newly unfettered competitor.

Five months into the new trading regime, one of its expected effects, the great Chinese garment boom, has come to pass in spades (see article). Elsewhere, the impact has been less dramatic, and the long-term consequences remain murky. Nowhere more so than in India, where the picture is muddied by statistical confusion. Official Indian data show that in the first quarter of 2005, exports of textiles and clothing fell by an alarming 21%. Fortunately, this appears not to be true. R. Poornalingam, the senior official in the Textiles Ministry, reckons that exports have actually grown by about 20% to America and by about 10% to Europe in both quantity and value. That is closer to the importing countries' own figures.

Even so, Mr Poornalingam concedes that India is not doing as well as had been hoped. Its textile industry, still dominated by smaller firms, had not geared up for the post-quota world as China's had. Buyers are deterred from placing large orders by poor infrastructure. And restrictive labour laws make firms reluctant to take on staff to meet a big one-off order, because of the difficulty of laying workers off later. The government's Communist allies have blocked fundamental labour-law reform. However businesses are optimistic that a more limited change, specific to the clothing industry, may sneak through.

The industry, which already employs 30m people in India, offers just the sort of labour-intensive development the country needs. Its workers are cheaper (if less productive) than China's. It is a big producer of cotton and man-made fibres and so, like China, has the potential to become a vertically integrated textiles powerhouse. For now, however, it accounts for just 5% of American textile imports, compared with China's fast-growing 19%.

Of the other South Asian exporters, only Pakistan has a big raw-material base. Having invested $4 billion in the four years up to the lifting of quotas, the industry there is well placed for growth. Sri Lanka and, especially, Bangladesh, however, were cited by American manufacturers as likely victims of collateral damage in the Chinese textile invasion. Both have important export-based clothing industries that have grown because of their guaranteed European and American quotas as much as because of any natural comparative advantage. Yet, in the first quarter, both countries' exports to America rose by about 20%. The region's only real loser in this—as so much else—was Nepal. Its clothing exports to America were down by 35%.

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About sponsorship

Australia and Indonesia

Busted

Jun 2nd 2005 | SYDNEY
From The Economist print edition

A drugs conviction sours relations between the neighbours

Get article background

AFP

Controversially convicted

JUST when Australia's often-strained relationship with its neighbour, Indonesia, seemed to be getting back on track, a public outcry over the unlikely figure of Schapelle Corby has threatened to waylay it again. Miss Corby, a 27-year-old trainee beautician from Queensland, was found guilty on May 27th of smuggling marijuana into Bali. She was sentenced to 20 years in prison. Outrage exploded in Australia, where the verdict was broadcast live. Polls indicate that 90% of Australians think Miss Corby is innocent. Some called for an Australian boycott of Bali as a tourist destination; others called on the conservative coalition government, led by John Howard, to suspend aid to Indonesia. Mr Howard, whose instinctive feel for what suburban voters are thinking sometimes clashes with the need for diplomacy, has been drawn into the fray, saying that, as a parent, he felt for Miss Corby.

Much about Miss Corby's story remains a mystery. She was arrested at Denpasar airport in Bali last October, after bags containing four kilograms (8.8lb) of marijuana were found in her surfing bag. She had flown to Bali from Brisbane with her brother and friends, making a transit stop in Sydney. When her trial began in January, Indonesian customs officers testified that she had been reluctant to open her bag, but had then admitted the marijuana was hers. Miss Corby denied making such an admission.

The judges dismissed evidence from five defence witnesses. Miss Corby's supporters say this, together with the fact that no fingerprints from the marijuana bags were taken, suggest that Indonesia's legal system was stacked against her. Some Australian experts are not so sure. Tim Lindsey, professor of Asian law at the University of Melbourne, argues that the judges properly reached their verdict from *prima facie* evidence, with no convincing rebuttal by Miss Corby's lawyers.

In Australia, the trial had the air of a television reality show. Much of the media portrayed Miss Corby as a plucky young woman fighting for survival in an unfamiliar land. Even the government wrote to Miss Corby's lawyers reporting allegations that baggage-handlers at Sydney airport had been involved in a drug-smuggling racket. There has been no evidence linking this to Miss Corby's luggage.

Anti-Indonesian feelings around the Corby affair turned nasty on June 1st, when an envelope containing a biological agent arrived at the Indonesian embassy in Canberra. Though Mr Howard said he was appalled and promptly apologised on behalf of Australia, and the substance appeared to be harmless, it was all a far cry from Australians' generosity following the tsunami last December. Things could get worse: Miss Corby may appeal, but so may the prosecution, demanding an even harsher sentence.

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About sponsorship

Wenzhou

From rags to cigarette lighters (and dildos and property too)

Jun 2nd 2005 | WENZHOU
From The Economist print edition

The Chinese city that has made itself both rich and envied

Get article background

THE southern coastal city of Wenzhou can make many claims to entrepreneurial fame. Isolated and impoverished just 25 years ago, its privately owned factories have come to dominate the Chinese market for products ranging from felt-tip pens to sex toys. It makes most of the metal cigarette-lighters sold in the world, and some of the dildos. Yet for all China's barely concealed adulation of capitalism, Wenzhou's brand of it makes many Chinese uneasy.

Wenzhou's airport, built just 15 years ago, has a bookshop replete with flattering accounts of the city's rise to fame and the skills of its businessmen, many of whom have inspiring rags-to-riches stories to tell. But the shop does not stock titles popular elsewhere, such as “The Scary Wenzhouese” and “Wenzhou's Property Stir-fryers”. Books like these describe how Wenzhou speculators have pushed up property prices across the country, taken control of many of China's private coal mines (and thus incurred responsibility for an appalling death rate) and made life miserable for taxi drivers by buying up limited licences and reselling them for huge profits.

The truth about Wenzhou, a city (including satellite towns and villages) of 7.4m people fringed by verdant hills, is no more than that it took to capitalism much earlier than the rest of China and has benefited from its head start. While Chinese leaders were still bickering about private business and free markets in the 1980s and early 1990s, Wenzhou, helped at that time by its remoteness and its relative lack of state-owned industries, allowed private enterprise to flourish. Traditional informal credit networks allowed businesses to grow without the help of government-controlled banks, which were averse to the private sector.

The stream of Communist Party leaders who have visited Wenzhou and its big private enterprises in recent years (officials from other provinces have even come to inspect the sex-toy production lines) suggests that Wenzhou has emerged on the right side of the ideological debate. But the city is never far from controversy.

This week the Chinese media reported the arrest in the Netherlands of Yang Xiuzhu, a former deputy

mayor of Wenzhou who is wanted in connection with what officials describe as the biggest-ever official corruption case in the province of Zhejiang, to which the city belongs. Ms Yang and a dozen other former officials in Wenzhou have been accused of embezzlement and bribe-taking to the tune of more than $30m in the late 1990s. In March last year, the Wenzhou authorities blew up a 22-storey bank office tower which was deemed unsafe after bank officials accepted bribes to hire shoddy contractors. The $4.2m building was never used.

But what makes Wenzhou citizens especially scary in the public imagination in China is their ability to pool funds and deploy them to capture or—as critics see it—manipulate markets. Many of the Wenzhou speculators in China's bubble-like property market have been housewives who, at least until the government began trying to rein in the market earlier this year, would team together to buy up entire new residential blocks. Their buying spree would also help stimulate markets by creating an impression of strong demand.

Even Shanghai, 370km (230 miles) to the north of Wenzhou and a city hardly short of speculative acumen itself, is somewhat in awe of Wenzhou's home-buying syndicates. The Shanghai media often look for clues to what Wenzhou speculators are doing as a way of predicting market trends (the Shanghai property market is showing signs of cooling thanks to government measures). But this attention may well be a product of an increasingly elaborate Wenzhou myth, rather than proof of any real ability of the city's citizens to move markets.

Much attention has focused recently on the emergence in Wenzhou of two super-syndicates, each comprising several private companies, which pool their funds to make big investments. Members of the biggest, Zhongrui, have a combined capital of several billion dollars. Last year they bought a parcel of land in Wenzhou for $185m, paying a record high price per area-unit for an auctioned lot in the city.

Wenzhou-phobia is showing signs of spreading abroad. Last September, a group of Spaniards protesting against the erosion of their local shoe industry by shoe traders from Wenzhou (the city makes a quarter of China's shoes) set fire to Chinese-owned warehouses, destroying nearly $1m worth of footwear. In March, police in Moscow confiscated nearly $10m worth of shoes from Wenzhou traders and detained the businessmen, accusing them of breaking import rules.

But one part of the Wenzhou legend that is certainly true is that the city has prospered in spite of controversy, enjoying double-digit growth for all but two years of the past quarter-century and an income per head that is now among the highest in China. Nan Cunhui, widely considered Wenzhou's richest man (he and his family are worth more than $100m, according to *Forbes* magazine), dismisses talk of Wenzhouese as speculators. “Wenzhou people pay no attention to it. We get on with our development without arguing,” he says.

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Egypt

Something is brewing but nobody knows quite what

Jun 2nd 2005 | CAIRO
From The Economist print edition

President Hosni Mubarak is struggling to keep a lid on reform but knows he must allow people to let off a lot more steam

Get article background

"THE problem is not that you're heading the wrong way, but that you've got one short leg and one long leg." When a keen observer of Egypt said this ten years ago, he was referring to its halting steps at economic reform. The words could just as well describe current moves towards political reform. Egypt's desire for change is all too clear, whether signalled by the government's own promises or by the sour, agitated mood on Cairo's streets. But while the state tries to keep the pace stately, growing numbers of Egyptians want big changes now, and the sooner the better.

A case in point was last week's referendum on a constitutional amendment that would allow, for the first time, more than one candidate to run for president. Egyptians overwhelmingly welcomed President Hosni Mubarak's announcement of the move, back in February. But then his National Democratic Party (NDP), which controls a rubber-stamp parliament, tweaked the rules so as to give itself a virtual veto over who might run against the incumbent of the past 24 years.

The government claims the referendum vindicated what Mr Mubarak had called his "unbounded faith in the Egyptian people". Officially, 53% of registered voters cast ballots, 83% of them saying yes. But while few dispute the positive vote, scarcely anyone believes the claimed turnout despite the fact that government-salaried preachers issued *fatwas* commanding the faithful to vote or that reportedly, in one district of Cairo, a rich NDP supporter offered a Viagra tablet to every voter.

For one thing, Egyptians have never voted in large numbers since the 1952 revolution ended a period of lively multi-party democracy. Parliamentary elections five years ago, which, unusually, were actually overseen by fairly independent judges, brought out just a quarter of the electorate. Moreover, the three main legal opposition parties, plus the influential but illegal Muslim Brotherhood (see next article), plus a budding protest movement called *Kifaya* (Enough!), which wants Mr Mubarak to resign, all boycotted the referendum.

Whether due to this or to simple apathy, most polling stations seemed empty of all but government

employees, pensioners and a scattering of poor folk, some of whom cheerfully told journalists they thought they were voting, as usual, to return Mr Mubarak for another term. Meanwhile, citizens with relatives in the police say officers received orders to vote as many times as possible. Testing the system, one enterprising reporter claimed to have voted in eight different districts.

Worse yet, plainclothes thugs viciously attacked two small voting-day protests in Cairo. It has become normal to see such protests simply boxed in by overwhelming numbers of riot police. This time, the helmeted ranks parted to allow NDP ruffians a free hand at grabbing, beating, groping and hair-pulling. Witnesses say they focused particularly on women protesters. Several had their clothes ripped off and personal belongings stolen.

In the past, Egyptians have tended to shrug off electoral shenanigans and police hooliganism as part of their lot. Fifty years of one-party rule, mostly under martial law, have left the country socially atomised and sceptical of even the possibility of effecting change. Aside from the NDP's huge patronage machine, other political parties are feeble. Fears among the public persist, not only of crossing the government, but of the potential for mob violence, or of a loss of control that might be exploited by the Muslim Brotherhood, if not by even more extreme Islamist forces.

Something fresher in the fetid air

Yet Egypt's mood is changing. Government heavy-handedness is now met, as never before, by exposure and fierce criticism. Trade and student unions that were long shackled by draconian laws and infiltrated by government agents are growing restive. A score of human-rights organisations detail such abuses as torture and arbitrary arrest. Satellite television, beyond the control of the state's terrestrial monopoly, magnifies the scale of dissent. Dozens of newspapers happily pounce on government fumbles, such as a recent statement by the prime minister, Ahmed Nazif, suggesting that Egyptians are not yet mature enough for real democracy. Contrasting Egypt's referendum with the French vote on a European constitution, one cartoonist pictured an Egyptian official telling Jacques Chirac not to worry: “We'll send some of our boys to take care of all those people who voted no.”

In the words of one commentator, who runs a popular web log, what Egyptians are experiencing is a transition from subjecthood to citizenship. The government was taken aback by the outcry, at home and abroad, provoked by the arrest in January of Ayman Nour (now out of jail but awaiting trial for forgery), soon after he had founded a liberal party called Tomorrow, declaring his intention to run for president. A bigger sign of change is that a recent sweep against Muslim Brothers, which they say netted more than 2,000 members, has evoked more outspoken sympathy than past crackdowns. Even some staunchly secular Egyptians now say they would accept Brothers in government, since at least they might be honest. And the Brotherhood itself has changed its rhetoric, if not its core beliefs. Where once its main slogan was “Islam is the solution”, it now calls for reform and democracy.

At the same time, old tools of government control and manipulation are wearing out. Egyptians often joke that they read the main state-owned daily, *al-Ahram*, only for the obituaries. The slow dismantling of socialist institutions and public-sector industries has made it harder to produce rent-a-crowd “masses”. Such changes have infected the NDP itself, which is increasingly tugged apart by tensions. Younger members, some close to Mr Mubarak's son Gamal, fear the party is falling even more dangerously out of touch with the public. They find police excess embarrassing and would actually have liked, for instance, electoral rules allowing for truly open competition. But so far the control-obsessed older guard seems to hold sway.

With both presidential and parliamentary polls looming in the autumn, anxiety over the future is rising. “I don't like the Brothers, and I know the opposition would mess up the economy,” says a Cairo financial consultant. “But the government is making dumb mistakes—and that worries me.”

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The Muslim Brothers

Getting stronger?

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Do the ever-resilient Muslim Brothers have a global game-plan?

AP

It's all in the Koran

SOME say the Muslim Brotherhood is the mean old granddaddy of Islamist terror. Others see it as more of a harmless and doddery uncle. Both versions are correct.

The Society of the Muslim Brothers is certainly the oldest of modern Islamist movements. Founded in Egypt in 1928, its membership had swollen to half a million by 1949. Sadly, the more eager of them tended to violence, which led to successive waves of arrests, followed by the torture and execution of top leaders. Under Gamal Abdel Nasser, some 20,000 Brothers languished in Egyptian jails.

But the simple ideas of the society's founder, Hasan al-Banna, proved infectious nonetheless. In brief, those ideas are that Sunni Islam provides a blueprint for politics as well as worship, that the solution to social ills is a return to the pure faith, and that Islam faces enemies, be they outsiders or bad Muslim governments, who seek to thwart this renaissance.

Far from stifling such notions, persecution in Egypt and elsewhere enhanced the Brothers' mystique, and radicalised subsequent generations of like-minded activists. Starting in 1946 with the opening of a branch in Syria, sister organisations sprouted across the globe. Algerian acolytes fought in the liberation war against the French, and later led movements to re-Arabise and Islamise Algeria. Sheikh Ahmed Yassin, a Palestinian fellow-traveller who was jailed when Gaza was under Egyptian control, went on to found the Palestinians' Islamic Resistance Movement, better known by its acronym, Hamas.

Significantly, many Brothers fled from Egypt just when its newly oil-rich neighbours sought the white-collar skills that a high proportion of the exiles commanded. One prominent member, for example, ran the school system in the Gulf state of Qatar. Muhammad Qutb, whose more famous brother Sayyid was hanged in Egypt in 1966 for preaching armed revolt, established the Saudi-based World Assembly of Muslim Youth. Later, as a teacher in Jeddah, he became a mentor to Osama bin Laden. Other Brothers headed to the West, where their honesty and zeal have secured influence in the institutions created—in France, for instance—to serve the growing Muslim diaspora.

Today the Brotherhood proclaims non-violence, excepting a right of *jihad* in what it sees as cases of infidel intrusion into Muslim land, ie Palestine and Iraq. It may have affiliates in perhaps 70 countries. Some are large and legal political parties, such as Jordan's Islamic Action Front, Yemen's Islah Party and

Morocco's Justice and Development Party. Others are semi-legal, such as Egypt's own original Brotherhood, which currently has 17 MPs sitting in parliament as “independents”. In Syria, mere membership remains a capital crime: the Syrian branch wisely operates out of London, as does the Libyan version.

More loosely linked are groups such as Iraq's Muslim Scholars' Board, which serves as an aggrieved spokesman for the country's once-dominant Sunni minority, and could yet play a crucial role as Iraq's new order grapples with the insurgency. Dozens of mosque-based charities around the world are also tied to the Brothers, if only by personal connections. And some whom the Brothers claim as their own are simply influential people, such as Sheikh Yusuf Qaradawi, the al-Jazeera satellite channel's star preacher, or Tariq Ramadan, a Geneva-based philosopher.

Still, the organisational reach of the Brotherhood's grizzled Supreme Guide, 83-year-old Mahdi Akef, who is headquartered in a modest Nile-side building in Cairo, is actually rather weak. There is little evidence to suggest that the Brothers have a co-ordinated plan to spread their influence, let alone control, across the Muslim world. Always suspicious of the movement because of its traditions of secrecy, governments have grown especially vigilant since September 11th 2001. Even Saudi Arabia, once a staunch backer, has shied away from the group.

Plenty of Muslims loathe their governments, admire the Brothers' resilience, and warm to fighting words about the need to defend the faith. Yet many also dislike the Brothers' sense of entitlement to rule. And some fear their zealotry and puritanism, which all too often translate into intolerance, and sometimes, mostly through distant offshoots, into nasty forms of violence, such as suicide-bombings. Even while acknowledging their popularity, many Arab liberals think the Brothers believe only in “one man one vote—once”. They note, for instance, a reluctance to address mundane issues or even doctrinal ones such as relations with Shia Muslims; Brothers stress the need for Muslim unity, but often in private call Shias heretics.

The fact is that the Brothers have never held power in a Muslim country, except briefly and ingloriously in Sudan. Other Islamist groups, both milder and more radical, now vie for Muslim affection. Without the bungling of Arab governments and the potency of calls for *jihad*, the Brothers might have faded entirely. Yet they may claim victory of a kind, by way of the intense, xenophobia-tinged religious revival that grips so much of the Muslim world.

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Palestine's security forces

Legal weapon

Jun 2nd 2005 | GAZA AND RAMALLAH
From The Economist print edition

Palestinian security reform has begun, but Israel needs to help too

AP

Just training. Next time for real?

ABU JIHAD, as the 22-year-old Gazan likes to be known, earns 1,100 shekels ($250) a month as an employee of the Palestinian Authority (PA) security services. Or maybe “earns” is the wrong word. Since signing on a year ago, Abu Jihad has not shown up for work once. Rather, he considers the modest wage (“not enough to pay the mobile phone bills,” he complains wryly) his fair due for giving his best years to the al-Aqsa Martyrs' Brigades, the cells of fighters loyal to Fatah, the PA ruling party. Mu'in, a long-serving intelligence officer from the West Bank town of Jenin who would not give his full name, joined the brigades at the start of the second *intifada* in 2000 but kept drawing his salary; he hopes to rejoin his unit just as soon as Israel hands responsibility for security in the occupied territories back to the PA.

The porous boundary between the brigades, who in the past few years have committed numerous terrorist acts against Israeli civilians as well as attacks on soldiers, and the security services that are, in theory, meant to keep tabs on them, is just one of the challenges for Mahmoud Abbas (Abu Mazen), the PA president, in his attempts to impose what he calls “one authority and one legal weapon”. Having promised to end Palestinian violence at the Sharm el-Sheikh summit in February, he could fall victim to the gap between his and Israel's idea of the right way to do it.

Israel wants the PA to arrest and disarm militants from groups such as Hamas, the main Islamist party, and al-Aqsa. But as Israeli officials privately acknowledge, that is too much to hope for right now. The militants, seen as having forced Israel's planned pullout from Gaza, are popular, and the PA security forces are in a pitiful state. Under the late Yasser Arafat, the dozen-odd forces turned into private fiefs distinguished more by loyalty to their commanders than by function. Responsibilities are vague; rivalry rather than co-operation is the norm. During the *intifada*, unknown numbers of officers defected to the militants and Israel's army pummelled what was left. The security services now have less than one-third of the equipment they need, says General Nizar Ammar, head of research and planning. With the economy shattered, the security forces also became the PA's main sponge for unemployment, and are packed with freeloaders. Estimates of the total payroll range from 55,000 to 70,000.

So reform will be a massive task. In April Mr Abbas named an interior minister, Nasser Yusuf, to oversee all the services; regrouped them under three main branches; and fired most of the old chiefs under a retirement scheme which should eventually get rid of 1,000-2,000 officers over 60. But further dismissals have since been few and there are doubts, says Hisham Ahmed, a political scientist at Bir Zeit University, about whether this is “reform, or just de-Arafatisation”. With American and European help, some of the security forces (notably the police) are putting together detailed revamping plans. The next step is to pass legislation setting out what each force is responsible for and to whom it answers; but a source familiar with the draft legislation says it falls far short.

Meanwhile, say Israeli army officers in Gaza, the PA's forces there now co-operate with them in response to attacks; but what they want is for the Palestinians to follow up more on intelligence leads and make pre-emptive arrests. That they do not is due to the deal that Mr Abbas made in February with the main militant factions: a promise to leave them alone if they refrain from attacks. Despite frequent clashes with Israeli troops and a steady trickle of (mostly Palestinian) deaths, constant mediation between the PA and the militants has mostly nipped any escalation in the bud. But “we are running out of credibility” with fighters like Abu Jihad, says Ahmed Hallis, a senior Fatah leader and one of the main mediators.

“Convincing them depends on promises and hopes that I myself don't feel.”

That is because Israel has dragged its feet on concessions since the peace summit in Sharm el-Sheikh: this week it began to release another 400 Palestinian prisoners, but it still has three of five West Bank towns to give up, and has taken away relatively few checkpoints and roadblocks. And it wants the militants fully disarmed before any talks on statehood.

Abu Jihad sees it the other way around: once there is a Palestinian state, side-by-side with an Israeli one on the 1967 borders, “then we will give our weapons to Abu Mazen; he won't even have to ask for them.” Muhammad Dahlan, the PA's civil-affairs minister, argues that many gunmen will lay down arms voluntarily, as he did years ago, if only life improves and Israel shows a willingness to negotiate. “First politics, and the economy, then security,” says Saeb al-Ajaz, the former head of the PA police. “But the Israelis say first security, then the economy, and only then we talk politics.”

That dichotomy could wreck any peace efforts. Building effective security forces will take years. General Ammar complains that Israel seems determined to trip up even that process, for instance by holding up permits for senior officials to travel between Gaza and the West Bank for meetings with American security advisers, and by blocking the import of some equipment the PA says it needs.

When Mr Abbas visited Washington last week, George Bush praised his efforts; later it was reported that his security envoy, General William Ward, will now act as a mediator with Israel too, to restore dialogue between the two sides. But in Washington as in Jerusalem, Mr Abbas's softly-softly approach has few fans.

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South Africa

Shaik's mate

Jun 2nd 2005 | CAPE TOWN
From The Economist print edition

Trying times for South Africa's deputy president

Get article background

AFTER years of investigation and a trial lasting almost eight months, the judge, in his summing up, found "overwhelming evidence" of corruption in the case against Schabir Shaik, who was duly found guilty on all three counts of corruption and fraud. The trial has fascinated South Africans partly because he is a close friend and financial adviser to the deputy president, Jacob Zuma, a front runner to succeed Thabo Mbeki.

The verdict is a victory for those trying to root out high-level corruption in South Africa. But the political question is how the verdict will affect Mr Zuma and his presidential chances. For the trial largely focused on the close financial ties between him and Mr Shaik, whose generosity towards the deputy president totted up to more than 1m rand ($151,000). The prosecutor argued that this largesse was payment in exchange for political favours, while Mr Shaik insisted it was a loan granted out of friendship. The prosecution also argued that in 2000 the Durban businessman solicited a bribe from Thomson, a French arms company now known as Thales, for the deputy president. In exchange, the prosecution said, Mr Zuma was to shield the company from investigation into an arms-procurement deal in the late 1990s. Not so, retorted Mr Shaik. The money was a donation to the Jacob Zuma Education Trust.

The question now is whether, with so much damning evidence coming out in the trial, the deputy president might not be next up in court. Though the Scorpions, South Africa's FBI, had previously said there was a "*prima facie* case" against him, he has never been charged. But the prospect of Mr Zuma as president may now worry a lot of people at home and abroad.

For many others, however, the amenable and diplomatic Mr Zuma will remain popular, possibly even more so than before the trial. Many in the rank and file of the ruling African National Congress (ANC) admire him for his modest beginnings and his role in the fight against apartheid, and dismiss the corruption allegations as a conspiracy. Zwelinzima Vavi, the national trade union boss, has come out in his support, as has the ANC Youth League. The left flank of the party seems to think Mr Zuma will be more sympathetic than the current government with its liberal economic policy. His political future will also depend on whether strong alternative presidential candidate emerge within the ANC. Unless formally charged, Mr Zuma may yet brush off corruption allegations and come out politically unscathed.

But this could set back those efforts to combat graft that would seem to have been enhanced by the outcome of Mr Shaik's trial, and would dent the country's image. In a report issued in March, Transparency International, a corruption watchdog, praised South Africa's attempts to tackle corruption over the last decade. Provincial and local officials have been dismissed for corruption and abuse of power. The ANC has announced that any MP found guilty of defrauding parliament in a current scandal over travel expenses will be fired. In his budget speech last week, Mr Mbeki said that "we must make certain that we have the proper mechanisms in place to deter corrupt practice and catch wrongdoers."

Transparency International also argued that anti-corruption rules need to be better enforced. So far, damaging high-profile scandals, including the one over the arms deal, have led to rather few prosecutions. And more ominously, last week a court barred the *Mail and Guardian*, a leading weekly, from publishing an update on what is now dubbed "oilgate". The newspaper alleges that public funds from a state-owned oil company ended up in ANC coffers via a private company, just before last year's general election. And last month a court refused to let the Institute for Democracy in South Africa, an independent outfit, force the country's four biggest political parties to disclose who their private donors were.

Earlier this year Mr Mbeki dismissed the Transparency International corruption rankings for being based on mere perceptions. In any event, South Africa, at last count, was rated the least corrupt country in sub-Saharan Africa, bar Botswana. But if Mr Zuma escapes without further scrutiny now that his friend Mr Shaik has been found guilty, the country's reputation for relative cleanliness will take a knock.

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Liberia's election

Still in the shadow of the warlords

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From The Economist print edition

Even in exile, ex-President Charles Taylor remains a menace

Get article background

AP

Is that hello or goodbye for Charles Taylor?

IN OCTOBER, a country that has become a byword for failed states in Africa is holding its first presidential poll since 1997. The good news is that Liberia's voter registration, co-ordinated and paid for by the UN and other international bodies, has gone fairly well. At the end of a month-long process, UN officials say, some 1.2m people had registered, roughly half of Liberia's adult population. The bad news, however, is that the man responsible for much of the past mayhem, Charles Taylor, is back behind the scenes, seeking to manipulate the election from exile.

The notoriously violent warlord won the last presidential election on a pledge that if he got in, he would kill fewer Liberians than he usually did. He lied. Wanted by an international war-crimes tribunal in neighbouring Sierra Leone for his role in that country's brutal civil war, and facing an advancing rebel army in Liberia itself, he fled to Nigeria in 2003. The UN has been keeping the peace ever since.

This time there will be no shortage of candidates. A field of more than 50 includes another former warlord, a retired football star, and a clutch of evangelical preachers claiming to have been chosen by God. The cluttered field has become the butt of many jokes; a current hit song is called “I want to be president too”.

Perhaps for the first time in their history, Liberians will have a fair choice. The country was founded in 1847 by freed slaves from America, who colonised the hinterland and formed an impenetrable elite that ruled unchallenged until 1980. Then came an army coup, and more than two decades of dictatorship and rebellion, followed by Mr Taylor's bloody rule.

So far only one candidate seems to have much popular support: George Weah, a former AC Milan football star, who has wealth, celebrity and good intentions, but no experience in government. Other serious candidates, such as Ellen Johnson-Sirleaf, have posh degrees and international credentials but little of Mr Weah's charisma.

A candidate to watch is Roland Massaquoi, a former farm minister who is seeking the nomination of the National Patriotic Party. This, however, is Mr Taylor's old party, and party leaders are said to have held a recent conference call with their old boss, who told them to support Mr Massaquoi. Such interference in Liberian politics flouts the agreement under which Mr Taylor was granted exile in Nigeria but is probably not an isolated example. A recent report by the Coalition for International Justice, a lobby, says that Mr Taylor is using his ill-gotten fortune to finance half of Liberia's parties. The report also accuses him of plotting to kill a long-time rival, the president of neighbouring Guinea, and says Mr Taylor is now recruiting a new rebel army from among Liberia's many unemployed gunmen.

Mr Taylor presumably hopes to install a sympathetic government—one way or another—and then to return to Liberia, as he has always promised to do. Nigeria faces American pressure to send him to Sierra Leone to stand trial at the war-crimes tribunal there, but it refuses to hand him over in the absence—it says—of proof. Nervous Liberians fear that the baleful influence of Mr Taylor will still threaten a fair election, whether or not he goes to trial in Sierra Leone or lurks behind in Nigeria.

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About sponsorship

The European Union constitution

Dead, but not yet buried

Jun 2nd 2005 | BRUSSELS
From The Economist print edition

Voters in France and the Netherlands have killed the EU constitution

Get article background

THE Thalys train that runs from Paris to Amsterdam via Brussels is a symbol of the high-tech, borderless Europe that the leaders of the European Union want to build. But this week, the Paris-Brussels-Amsterdam route became the fault-line for a European political earthquake. The first shock hit in France on the night of May 29th, when exit polls showed that France had voted to reject the EU constitution by 55-45%. In the European Commission building in Brussels, the news was met with a collective gasp—and, from somewhere in the crowd, an “ooh-la-la”.

Senior officials responded with all the panicky reactions of a small-town mayor in an American disaster movie. The insistence of Jean-Claude Juncker, prime minister of Luxembourg and current president of the EU, that the constitution was not dead, and that ratification must continue, was echoed by José Manuel Barroso and Josep Borrell, presidents of the European Commission and the European Parliament respectively. Even when, on June 1st, the Dutch voted still more strongly against the constitution, the EU's worthies insisted that ratification must continue elsewhere.

The Dutch and French noes are a terrible blow to the morale of true believers in political union, whose faith in the historical inevitability of their dream may never recover. Given the depth of the commitment of such men as Mr Juncker to the project, it is not surprising that his first reaction was of defiance. But the arguments for continuing with ratification seem increasingly surreal.

The legal position is that, for the constitution to come into force, all 25 members of the EU must ratify it. When they signed the text in Rome last October, EU leaders attached a declaration that if, two years later, four-fifths of countries had ratified, but some had “encountered difficulties”, an EU summit would be held to consider the situation. This declaration is the basis for Mr Juncker's insistence that ratification must continue. He points out that nine countries have already ratified the constitution (although only Spain did so via a referendum). Are the wishes of the nine to be ignored, simply because the French and Dutch have encountered difficulties?

Yet there is a strong risk that referendums in Denmark, Poland, the Czech Republic or Britain, and even

in Mr Juncker's own Luxembourg, which is planning to vote on July 10th, will produce further rejections. And it is anyway hard to see how anybody can seriously be asked to vote on a text whose legal status is now in limbo. To send people to the polls to answer a hypothetical question is to invite trouble. The British, though treading carefully, are clearly looking for a way to bring the ratification process to a halt, most likely at the EU summit on June 16th and 17th.

The broader problem is that EU leaders had assumed that potential non-ratifiers would either be small countries, such as Denmark or the Czech Republic—whose arms might be twisted into voting again—or a more sceptical country such as Britain. Some keen federalists relished the idea of presenting the British with the stark choice of ratifying the constitution or leaving the EU. But it is impossible to see either "solution"—a second vote or expulsion—applying to France or the Netherlands.

If it were not to invite an even bigger raspberry, a new vote would have to be on a text that had been revised or qualified in some way. But the strongest French demands in any renegotiation would be for some kind of extension of French social protection to the rest of the EU, which other members would never concede. Yet if renegotiation and a second vote are unthinkable, so is the option of chucking France out. Unlike Britain, France has always been politically (and geographically) central to the EU. Like the Netherlands, France is one of the six founders, and also one of the 12 that have joined the single European currency, the euro. An EU without France is simply unimaginable.

How else might the EU get out of its crisis? Technocrats in Brussels are already talking of cherry-picking parts of the constitution that could be pushed through without changing the treaties—a strategy that might avert new referendums. The difficulty is that some key provisions—changes to the voting system, the abolition of some vetoes, the creation of a Charter of Fundamental Rights—undoubtedly require treaty amendments. The one big change that lawyers think might be achievable without referendums is creating a foreign minister, which could be done by inter-governmental agreement. But that could be politically tricky. After the French and Dutch votes, anything smacking of an elite-driven attempt to circumvent the popular will would look awful.

Cherry-picking the constitution is not in any case a response to the crisis of legitimacy revealed by these votes. One idea long popular with federalists is for a "hard core" led by France and Germany to forge ahead with an ever-closer union. There are some common points in the German and French debates that might aid such a venture, notably shared anxiety about the impact of enlargement. But it is hard to see France's Jacques Chirac or Germany's Gerhard Schröder being able to pursue such an option now. Mr Chirac has been humiliated, and Mr Schröder is likely to lose the German election in September. One unkind member of Mr Chirac's own party was quoted in *Le Figaro* this week likening the Chirac-Schröder partnership to one between the "blind and the crippled".

If France cannot regain the initiative in Europe through a joint venture with Germany, it may become increasingly curmudgeonly in its dealings with the EU. This would be bad news for future enlargement of the club. Even Bulgaria and Romania, which have signed accession treaties, could find the doors bolted at the last moment—the French parliament still has to ratify Bulgarian and Romanian membership. The omens are worse for Turkey, due to start membership talks with the EU in October. The prospect of Turkish membership was a strong card for the no campaigns in both France and the Netherlands. Angela Merkel, who is likely to be the next German chancellor, is against Turkish membership of the EU. Even if negotiations start on time, they may do so only on the basis of the EU making even clearer that there is no promise of eventual Turkish membership.

The French will kick up a fuss on other issues too. Mr Chirac will press harder than ever to scrap the British budget rebate, which will worsen his already bad relations with Britain's Tony Blair, who will take over the EU presidency from Mr Juncker in July. France will also oppose further economic liberalisation, in direct opposition to the commission. Watching from Berlin, one senior German official predicts gloomily that "if France pushes its national interests even harder, others will do the same. We may be entering a new era of national egoism."

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France after the referendum

Dominique to the rescue

Jun 2nd 2005 | PARIS
From The Economist print edition

Political prospects for a new French government

Get article background

IT WAS a wake-up call for Europe—and for France. The polls had predicted a no in the French referendum on the European Union constitution, but few expected it to be so big: 55-45%. This result was a humiliation for President Jacques Chirac, the first president of the fifth republic to lose a referendum on Europe. The question is whether Dominique de Villepin, the prime minister he chose two days later, can defuse swelling popular discontent.

The political fringes formed part of the French no vote: over 90% of the extreme right and extreme left. But it also included Philippe de Villiers's nationalist right (75%) and the mainstream left: 56% of Socialist voters, 60% of Green voters and 98% of Communist voters, says Ipsos, a pollster. Only voters from the ruling UMP (80%) and centrist UDF (76%) said yes. More striking still, the vote followed unemployment and income. The leafy suburbs of Paris, along with the capital itself and rural Brittany, voted yes. The industrial towns of northern France (69.5% in Pas-de-Calais), and the high-unemployment south, voted no. Fully 79% of blue-collar voters said no; among occupational groups, only professionals and executives voted yes.

This pattern shows that the vote was only partly a rejection of Europe. It was also a rebellion against the failure of the political elite. Unemployment, now 10.2%, was the single biggest reason for a no, said an exit poll by TNS-Sofrès. Exasperated by out-of-touch leadership in hard times, intoxicated by the chance to rebel, and encouraged by populist no campaigners, the French revolted. It was, said Serge July, editor of *Libération*, an “electoral riot”.

Mr Chirac responded as all unpopular French presidents do: he sacked his prime minister. But his choice of successor to Jean-Pierre Raffarin left many baffled. The aristocratic Mr de Villepin, graduate of the Ecole Nationale d'Administration, France's top civil-service college, is an energetic and passionate former diplomat—but he is also the incarnation of the French elite that voters have just rejected. He served for seven years as Mr Chirac's chief of staff, when he advised the calling of early parliamentary elections in 1997 that the Socialists won, and two as his foreign minister. He has never held or even stood for elected office.

His appointment is best explained by internal politics. The more logical candidate was Nicolas Sarkozy, the UMP head. Mr Chirac distrusts the man who so badly wants to succeed him, but Mr Sarkozy is popular both with the party and with voters. On referendum night, Mr Sarkozy made an open plea for the job, urging “a break with the *pensée unique* [single way of thinking] and recipes of the past”. In contrast, Mr de Villepin this week called for more action on unemployment, but also defended France's social model, which tends to dampen job creation.

Faced with a choice between continuity and change, loyalty and tension, Mr Chirac plumped for the man he trusted—but with a twist. He unexpectedly recalled Mr Sarkozy to the government as its number two; he is likely to return to the interior ministry, a job he had in 2002-04. There was some surprise that Mr Sarkozy was prepared to serve in the government (although he is retaining his post as UMP boss too). But it gives him the chance to grab headlines as an action hero, addressing popular concerns such as immigration and security, and winning support among police and gendarmes. With Mr Chirac enfeebled, Mr Sarkozy's chances of emerging as the UMP's presidential candidate in 2007 look stronger than ever.

What does all this mean for policymaking? In a word: confusion. By appointing a two-headed government—*Libération* calls the pair “the president's crutches”—Mr Chirac has refused to arbitrate,

leaving two would-be successors to fight it out. Mr de Villepin will be in charge of economic policy, yet has no known views on the subject. The man who keeps a bust of Napoleon in his office and writes poetry is more at home with destiny and grandeur than fiscal policy. He is best known for his rousing speech to the United Nations against the war in Iraq, and for his ability to irritate America—yet foreign policy is not the prime minister's domain.

Bold structural reform is unlikely. Mr Chirac declared that the new government would “respect our French model” which was “not the Anglo-Saxon type”. Even if Thierry Breton stays on as finance minister, there is little scope for tax cuts, given the public finances. There may be more subsidised jobs for young people, but deregulation of the labour market is not on the agenda. Mr de Villepin will have enough on his hands facing down his first street protests and strikes.

Mr Chirac is not the only leader humiliated by the referendum. The Socialists are in disarray. François Hollande, their boss, who won the party's backing to say yes to the constitution in an internal vote, has taken a severe knock. By contrast, the gamble taken by Laurent Fabius, the party's number two, to fight against the treaty has paid off. When he first aired his opposition, it looked like suicide; today, Mr Fabius can scarcely disguise his satisfaction.

Can the Socialists reconcile their bitter differences, which erupted so violently during this campaign? A “clarification” congress is planned, probably this autumn, to settle the future direction of the party. Should it continue to modernise, as Mr Hollande wants, or should it follow Mr Fabius's new hard-left friends down a path to an anti-capitalist utopia? Should it reach out to the discontented left, or should it sanction Socialist rebels? And who should be its leader?

All this will sorely test the party's unity, as well as Mr Fabius's presidential chances. He said this week that he was ready to prepare the left for 2007 “with anybody who wants to”, hinting that he might do this outside the party. If he tries to seize control of the party, plenty of Socialist heavyweights will do their utmost to thwart him. In short, the power struggle between pretenders on the left promises to be no less intense than that between the two rivals in government on the right.

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The referendum in the Netherlands

Dutch nees up

Jun 2nd 2005 | AMSTERDAM
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An even bigger no than in France fosters talk of more referendums in future

Get article background

IT WAS enough to make many Dutch politicians nostalgic for the previous 200 years, when no national referendums were held in the Netherlands. Soon after the polls had closed on June 1st, it became clear that, in a high turnout, voters had rejected the EU constitution by a whopping 62-38%, an even bigger no than in France three days earlier. But the rejection is unlikely to produce big political changes—beyond making the country's already insecure political class even less secure.

As in France, the Dutch no vote was fuelled by a strong anti-establishment feeling. The EU has long been a reserve for professional politicians. Dramatic changes—the euro, the accession of ten new members, the decision to start entry talks with Turkey—were made at the top and presented as *faits accomplis*. The Dutch no vote seems to have been more about this way of doing business than about hostility to the European project as such. Many no voters said they were pro-European, but feared that small countries were losing influence in an EU dominated by bigger ones. Some hoped that the no vote would improve debate on European issues.

The vote was also a reaction to fears of losing two things the Dutch hold dear: sound money and liberal social policies. The euro is widely blamed for inflating the cost of living. And liberal Dutch voters fret that a more conservative EU might interfere with policies on soft drugs, gay marriage and euthanasia. Fears of losing control of immigration policy played a role, as did hostility to possible Turkish membership and resentment over big Dutch payments to the EU budget. Some no voters were also inspired by the government's aloof yes campaign. The voters were angered by fear-mongering and disdain, as politicians interleaved warnings of economic collapse or even war with references to no voters as uninformed or ignorant. Even this botched campaign was conducted half-heartedly.

The EU constitution may now be dead, but the Dutch government will live on. The prime minister, Jan Peter Balkenende, said in advance that a no vote would not be a reason for his government to step down. The complex political construction that holds Dutch coalitions together means that ministers seldom step down.

The Dutch referendum is only consultative, but after a turnout of 63%, the main parties have said they will follow voters' wishes. The result surely makes a second vote implausible. Meanwhile the Dutch public is digesting the experience of its first serious debate on Europe. This has already had one side-effect: for the first time, many in parliament favour the notion that referendums, which were to have been discarded altogether in 2006, should become more prominent in Dutch politics. Some even suggest they should become binding.

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German politics and the EU

A tale of two couples

Jun 2nd 2005 | BERLIN
From The Economist print edition

How the French referendum may play into German politics

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IT MAY seem a stretch to compare the election in North Rhine-Westphalia to the French vote on the EU constitution. Yet in both cases, voters said no not only to a regional coalition or a treaty, but also to national leaders. The fallout was rapid: a snap general election in Germany, a new government in France. The two votes have also exposed tensions inside two powerful partnerships: the one between the Social Democrats (SPD) and Greens inside Germany, and the one between France and Germany inside the EU.

When “red-green”, as the SPD/Green coalition is known, came to power in 1998, it was seen as a natural alliance that could end years of political stagnation. In its first term, the coalition did much to modernise Germany, with laws on citizenship and same-sex partnerships. Yet by its second term in 2002, the coalition was scrambling for joint projects. As the economic and political outlook deteriorated, Chancellor Gerhard Schröder and a spooked SPD came to set the agenda, resisting such Green projects as anti-discrimination and freedom of information laws.

Predictably, things have gone further downhill after Mr Schröder's decision to call for early elections. The two parties will campaign separately. Last week, the coalition almost collapsed after a quarrel over corporate-tax cuts and how to precipitate the elections (Mr Schröder is likely to ask his ministers, most of whom are members of parliament, not to participate in a vote of confidence on July 1st).

As for Franco-German relations, they are running through a similar rough patch. After getting off to a bad start, Mr Schröder and France's Jacques Chirac moved ever closer: joint opposition to the Iraq war, surprise deals on farm subsidies and the EU constitution, new efforts to co-ordinate domestic and EU policies to mark the 40th anniversary, in January 2003, of the bilateral Elysée treaty. There was even, for a time, heady talk of a Franco-German union, including a single foreign policy.

Yet the more the two leaders got along, the weaker the Franco-German engine of the EU became. Such joint initiatives as weakening the stability and growth pact are seen by smaller member states as self-interested, not as a search for compromises acceptable to all. In Berlin, there is a growing feeling that the two countries have become too close for comfort. It is also becoming understood that, in a club of 25, Franco-German agreement is no longer sufficient for the EU to move ahead. That is clearer still after France's loud *non* to the constitution.

The French vote and the looming German election could lead to a rebalancing of German foreign policy. Mr Schröder will not break with his friend, Mr Chirac: they talked after the referendum, and the chancellor declared that the vote did not spell the end of the Franco-German partnership. Yet, for the first time in decades, France and Germany, which ratified the constitution two days before the French vote, are on separate European tracks. Ideas of a core Europe or a Franco-German union now seem all but dead.

In any case, Angela Merkel, who was this week officially nominated as the chancellor-candidate for the opposition, led by the Christian Democrats (CDU), and is now the favourite to win the election in September, is sure to adjust foreign policy. She is indisputably more Atlanticist and liberal than Mr Schröder; indeed, she shares many views with Nicolas Sarkozy, a rival and possible successor to Mr Chirac.

Are the two couples doomed to irreconcilable differences? No, because in neither case is there much alternative. Although the SPD muses about a grand coalition with the CDU, this seems unlikely. Its best

hope of power still lies with its linkage to the Greens. Similarly, although some in the opposition toy with the idea of other EU alliances—eg, with Britain—they will find that, if Germany wants to do anything in the EU, it always needs France. Ms Merkel would have to accept that public opinion favours close relations with France.

Still, the bickering is likely to have salutary effects. Going their separate ways, if only temporarily, will allow the SPD and Greens to reaffirm their identity before getting back together. And a cooled-off Franco-German engine, with different people at the wheel, may seem less threatening to other EU members and to America. As with human couples, political marriages are shaken by traumatic events but often endure despite them.

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Turkey and the EU

Reason to worry

Jun 2nd 2005 | ANKARA
From The Economist print edition

The country with most to lose from the EU referendums may be Turkey

Get article background

WHAT do the French and Dutch rejections of the European Union constitution imply for Turkey's hopes of joining? If one believes the country's political leaders, nothing. “This result has nothing to do with Turkey's candidacy, we will continue on our path with the same enthusiasm,” the Turkish prime minister, Recep Tayyip Erdogan, told parliament this week. His rhetoric was echoed by EU officials. And in theory they are right.

The constitution makes no reference to Turkey's membership. In France (as in some other anti-Turkey countries, notably Austria) voters have been promised the chance to stop Turkey joining in a separate referendum on further enlargement, when the time comes. Moreover, last December's decision by EU leaders to promise Turkey the start of membership talks on October 3rd was a political one that can be changed only by consensus of all 25 EU members. Some optimists even venture to suggest that the defeat of the constitution could pave the way for a looser EU that it would be easier for Turkey to fit into.

Yet the reality is more worrying for Turkey. The French and Dutch noes may be “the EU's internal problem”, as Mr Erdogan claims. But they also reflect growing hostility around Europe to further enlargement of the EU—and, specifically, to the idea of taking in poor, big and Muslim Turkey. There is also a good chance that Germany's opposition Christian Democrats (CDU) will win the election expected in September. The CDU leader, Angela Merkel, is firmly opposed to Turkey's membership and has lobbied instead for a “privileged partnership” that has been roundly rejected by the Turks. Her hostility to full membership for Turkey is shared by France's Nicolas Sarkozy, a would-be presidential candidate in 2007.

Against this gloomy background, the wisest course for Turkey, according to the EU ambassador to Ankara, Hansjörg Kretschmer, is to ignore the ructions in Europe and focus on implementing the sweeping reforms that earned it the precious October date for talks. In one hopeful sign, Mr Erdogan last week appointed Ali Babacan, his young and pragmatic economy minister, to head the EU negotiations. Turkey is also about to sign a protocol extending its customs union with the EU to the ten new members that joined last year, including Cyprus.

This week a long-delayed new penal code came into effect. But despite such radical provisions as making marital rape a crime, the code also contains several controversial articles—for example one that allows long prison terms for journalists who attack the Turkish military presence in northern Cyprus or describe as “genocide” the mass slaughter of Armenians during the first world war.

There are, indeed, disturbing signs that Mr Erdogan may be pandering to a recent upsurge in nationalism that is being fanned both by anti-Turkish sentiment in Europe and by the country's hawkish generals, whose power may be eroded by EU reforms. Besides continued police harassment of Christians and other minorities, last month an appeal court in Ankara upheld the banning of Turkey's biggest teachers' union because it had said that the country's 14m Kurds should be able to educate their children in their mother tongue. Turkish academics had to cancel a conference to debate the Armenian tragedy after the justice minister, Cemil Cicek, accused them of “knifing Turkey in the back”.

Mr Cicek's outburst, concluded one senior EU diplomat, was “confirmation that the government no longer believes in the EU process.” That view may be exaggerated, but there is disillusion with the EU among Mr Erdogan's conservative base. One example is perceived European indifference to restrictions on the Islamic headscarf. It was surely with his conservative base in mind that Mr Erdogan last week introduced legislation to reduce penalties for those who run underground courses to teach the Koran. The move

brought renewed charges from Turkey's fierce secularists that Mr Erdogan's real intention is to move the country closer to an Islamic theocracy, and not to the EU. Turkey's many enemies in Europe would surely take pleasure in that.

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British politics after the votes

Everyone's a winner

Jun 2nd 2005
From The Economist print edition

Britain's Tony Blair will not mourn the passing of his planned referendum

Get article background

LUCKY indeed is the politician who is saved from the consequences of his rashest decisions. Just over a year ago, at a moment of great political vulnerability, Tony Blair, taking most of his cabinet by surprise, announced that Britain would hold a referendum on the European Union constitution. The idea was to neutralise the issue before the European elections a few weeks later. Mr Blair was desperate to avoid a result that would lend weight to the idea that he had become an electoral liability.

It worked, up to a point. The opposition Tories, deprived of their best theme—the government's arrogant refusal to consult the people on a matter that would change how Britain was governed—did badly, losing ground to the anti-European UK Independence Party. From that moment, the fear that Labour under Mr Blair would lose the general election the following year more or less evaporated. But it soon became apparent that Mr Blair might have paid a high price for his short-term survival.

Unlike the vote on joining the euro, this seemed to be a referendum that could not be avoided. And although Mr Blair spoke confidently of relishing the chance to dispel myths propagated by the Tories and the anti-European press, the truth, admitted in private, was that he had no such confidence. Shaken by an election win that was much less emphatic than he had expected, Mr Blair's hopes of winning a referendum next year looked slim. Worse still, polling evidence suggested that his own presence at the head of the yes campaign would doom it. Had the French and Dutch not halted the constitution in its tracks, the unpleasant choice facing Mr Blair was: either to step aside before the referendum, or to resign in the aftermath of a personally humiliating defeat.

Against that prospect, the theory that Mr Blair would still like the chance of a fight to end Britain's historical ambiguity towards Europe is far-fetched. So too is the notion that, win or lose, the referendum would have given him an excuse for stepping down and handing over to Gordon Brown. Mr Blair is most unlikely to carry out his threat to serve a full term before retiring, but given the option of being forced out next year and going somewhat later at a time of his own choosing, there's not much doubt which he would prefer.

As for the Tories, being deprived of a referendum would be both good news and bad news. The bad news is that whoever succeeds Michael Howard later this year will lose the opportunity to land a heavy blow on the government. The good news is that, if momentum towards further integration is permanently stalled, Europe should cease to be a big issue in British politics. That may allow the Tories at last to escape their debilitating obsession with Europe and get on with the bigger job of making themselves a party fit for government.

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Kosovo's final status

Independence dreams

Jun 2nd 2005 | BELGRADE
From The Economist print edition

A Serbian province heads towards full independence

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THE United Nations Security Council has given the go-ahead for talks that could culminate in independence for Kosovo. Six years after the end of the Kosovo war, it signalled on May 27th a new determination by the western powers to open talks on the final status of the disputed province. The fear is that, if Kosovo is not seen to be moving towards independence soon, the UN mission and NATO troops in Kosovo might be faced with an ethnic-Albanian equivalent of Palestine's *intifada*.

Under international law Kosovo is still part of Serbia, even though it has, since June 1999, been a UN protectorate. It has a population of some 2m, of whom more than 90% are ethnic Albanians. They want independence. Serbia's leaders say that they are willing to offer the Albanians virtually everything they wish—except that.

The UN has now set a diplomatic process in motion. A UN envoy will be sent to assess the situation in the province. A "status envoy" may then be appointed in the autumn to push forward negotiations between Kosovo's Albanians and Serbia.

Serbian officials are preparing various negotiating strategies. Nothing is finalised yet and some, at least, is bluff. After all, in the unlikely situation that Kosovo's Albanians accepted Serbia's offer of "more than autonomy and less than independence", this could put ethnic-Albanian ministers into Serbia's government, as well as an ethnic-Albanian block into parliament in Belgrade. Such a block could hold the balance of power between parties representing 8m Serbs. Serbia's leaders do not want this. What they would prefer is for the western powers to persuade the Albanians to abandon their demands for full independence. No Serbian leader wants to go down in history as the man who treacherously signed away a province many Serbs see as their historical birthright.

According to one Serbian source, this could mean that ethnic-Albanian areas of Kosovo would be self-governing and independent in all but name. Yet many western diplomats think that it is unrealistic for Serbia to retain any kind of link to Kosovo. They are mulling the idea of "conditional independence". This would break the link with Serbia and replace the present UN mission with a new body that would have

considerable reserve powers to keep the province under tight international control for many years to come.

To a considerable extent Serbia's leaders are fighting a rearguard action over Kosovo. They know that they may not be able to prevent Kosovo's independence. They even concede that, if it should be forced on them, they could not possibly launch a new war against it. Yet, as one Serbian source close to the president says, an independent Kosovo could quickly turn into a crime-ridden, mafia-run state: a result that would be nothing short of a “disaster for the region”.

To the grim satisfaction of Serbian officials, and just as independence appears within its grasp, Kosovo's own politics are in disarray. While the UN is trying to encourage all sides to find a consensus before the final-status talks, bitter political feuds are breaking into the open. A spate of inter-Albanian shootings and bombings has underlined just how fragile political life is in the province.

Gerald Knaus, head of the European Stability Initiative, a Berlin-based think-tank, gives warning that there could be worse to come. He says that Kosovo's stagnant economy may shrink by as much as half a percentage point this year, just as the EU is also drastically cutting back aid. This he terms “strategic blindness”, which could result in upheavals and violence just at the moment that the EU is nudging the Serbs and Kosovo's Albanians towards talking peace.

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Azerbaijan and democracy

A watermelon revolution?

Jun 2nd 2005 | BAKU
From The Economist print edition

AP

Not likely, says Azerbaijan's president

Get article background

AS HIS capital, Baku, swelters, Ilham Aliev should be sweating. He inherited the presidency from his father, Heidar, after a flawed election in 2003. Parliamentary elections are due in November. Azerbaijan is as corrupt as almost anywhere on the planet. The parallels with pre-revolutionary Georgia, Ukraine and Kirgizstan are painfully clear. So is Mr Aliev nervous? “No”, he says firmly.

Why not? Because, he declares, his regime is more popular than those of other ex-Soviet countries, and because the opposition is discredited by violence in 2003, and by its association with the government before his father, a Soviet-era boss, returned in 1993. “I am a new generation,” Mr Aliev says, glossing over his dynastic succession. His country also has energy. A new pipeline will pump oil from the Caspian Sea to Turkey via Georgia. This may explain why the West has tolerated the Aliev clan's excesses. (Rumours of possible American military bases in Azerbaijan are denied by Mr Aliev.)

“We do not have human-rights abuse in our country,” says the president, cracking his knuckles. But Elmar Mammadyarov, the foreign minister admits that the police were over-zealous when violently breaking up a street demonstration on May 21st. International watchdogs have documented a string of dreadful police and judicial abuses. The big difference in Ukraine, says Isa Gambar, who claims to have beaten Mr Aliev in the 2003 election, was that its leaders were persuaded not to use force. Ali Kerimli, another opposition leader, says that, for Azerbaijan's sake, the West must now be stern with Uzbekistan over its massacres last month.

The oil also makes it easier to grease palms and secure loyalties. Baku's bureaucrats are said to receive two salaries: paltry official ones, and cash supplements. For ordinary folk, oil revenues seem to offer the chance of a share in the narrow prosperity evident in Baku's designer shops and Mercedes-crowded streets. Yet the lesson of Ukraine and Kirgizstan is that revolutions can strike even apparently stable regimes.

If Mr Aliev stays on, there are two prognoses for Azerbaijan's future, resting on contrasting assessments of his personality. The optimistic version is that he means what he says about creating a middle class, tackling corruption and using oil revenues to diversify the economy, much of which collapsed with the Soviet Union. By the time Azerbaijan's share of Caspian oil runs out in about 20 years, the 40% of the population living in poverty will have been lifted out of it. And Mr Aliev may, in time, replace the old-school cronies he inherited from his father with modernisers.

The gloomier version is that, for all his talk of media impartiality and against corruption, Mr Aliev has kept on the old elite because he agrees with them. The oil money will be wasted, and the country's gaping inequality will widen. Radical Islam may encroach from Dagestan to the north or Iran to the south. Or oil may finance the reconquest of Nagorno-Karabakh, a bit of Azerbaijan seized by Armenia in the 1990s. “Every patience has limits,” says Mr Aliev. Bellicose talk puts pressure on Armenia. One day, the threats may even be fulfilled. They certainly appeal to angry Azeris: Karabakh comes up in conversation almost as often as Heidar Aliev's image appears on plinths and in portraits.

A small test of direction will be an opposition rally this weekend. A bigger one will come with the November election, for which Mr Gambar, Mr Kerimli and others are trying to unite. If he could overcome the usual post-Soviet neurosis about elections, there would probably be little cost for Mr Aliev in allowing the free vote that he says he wants. Can he?

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Charlemagne

The triumph of perfidious Albion

Jun 2nd 2005
From The Economist print edition

How Britain unexpectedly emerged victorious from votes on the EU constitution

Get article background

IT IS perhaps tactless to point it out, but France's rejection of the European Union constitution is, in lots of ways, a triumph for Britain. For at least 50 years, the British have had two main goals in Europe. The first was to blunt the drive towards European political union; the second, to prevent Franco-German domination of European politics. With the death of the constitution both goals have been achieved at once. Michel Barnier, who was expected to lose his job as French foreign minister after the referendum, commented gloomily that “this is the first time in 50 years that the French and Germans have diverged in Europe on a fundamental issue. Without this constitution, Europe is broken down politically.” When Jack Straw, the British foreign secretary, claimed to be saddened by the French vote, you could almost hear his officials popping champagne corks behind him.

Success is all the sweeter because the European issue has bedevilled Britain for so long. The difficulty was that the two goals, avoiding entanglement in a political union and preventing a Franco-German partnership from dominating Europe, have so often conflicted. Britain at first stayed out of the European Economic Community, because it seemed an unacceptable infringement of national sovereignty. But as the economy suffered and British influence waned, a new strategy was adopted: join the club, but try to focus it on economics and block any more moves towards European federation. It was a tricky game to play. Many British Eurosceptics, including, latterly, Margaret Thatcher, feared that, in the name of preserving British influence, the country was being gradually drawn into a political union.

Suddenly all such clouds have lifted. Britain is still in the European club, but political union is dead. Better still, French fingerprints are all over the murder weapon. Having spent years being reviled as “bad Europeans”, the British are taking quiet satisfaction in all the odium now being heaped on France. President Jacques Chirac clearly saw this coming. In his final television address before the vote, he warned his countrymen that a *non* would be a triumph for those who had always wanted Europe to be little more than a “free-trade zone” and opposed a broader political union—words that clearly pointed to Britain.

The irony in all this is that Mr Chirac was forced into calling a referendum in large part because Tony Blair decided to call one in Britain. It would be nice to believe that subsequent events were all part of a fiendish British plot. In fact Mr Blair called for a referendum mainly because he was politically weakened after the Iraq war, and thus needed to defuse the European issue. For a long time, it looked as if he had made a huge miscalculation. Earlier this year, senior British officials convened for an anxious weekend conference to contemplate gloomily the consequences should Britain be the only country to reject the constitution—as seemed likely at the time.

But if luck and accident played a part in the British triumph, so did one long-term strategy. Lady Thatcher and Mr Blair may have adopted different tones towards the EU, but they shared a central goal: enlargement of the club. The British argued, doubtless sincerely, that letting former members of the Soviet block into the EU was a moral imperative. But this also happened to serve British goals very well. The central Europeans have only just recovered their sovereignty and are instinctively wary of moves towards European federation. Bitter experience of socialism also makes them sympathetic to the economic liberalism traditionally championed by Britain. And the mere fact of expanding the EU to 25 countries in 2004 has made it far harder for any two countries to dominate. The days when Franco-German initiatives were nodded through by everybody else are over. To rub salt into the wound, English is increasingly the working language of the EU, a cause of real anguish to France.

Even as the British pursued the single, consistent goal of enlargement, the French suffered from a lack of strategic vision. As one senior French commentator puts it, “we always go into European summits determined to fight to the death for something. Unfortunately it is always a different thing.” At Nice in December 2000, Mr Chirac's goal was to keep the same number of EU votes as Germany, despite the much bigger German population. He succeeded; but only a few years later, France abandoned the point and conceded more voting power to Germany. Instead, Mr Chirac adopted new goals: an EU defence initiative, getting a Frenchman appointed to head the constitutional convention, protecting the status of the French language.

Such jumpy inconsistency reflected an underlying fear that the EU, France's baby, was growing out of its control. In 2001 *Le Monde* asked on its front page: “Who will dare say no to enlargement?” The answer was certainly not France. Moral scruples may have played a part. But France also realised that blocking enlargement would cause an unthinkable rupture with Germany, which badly wanted its eastern neighbours in the club. French leaders were trapped; some of their fears may have been transmitted to the people who this week voted no.

Oui, minister

A key part of the European game is that all sides must always justify their policies by reference to the noblest ideals. That is why the purest statement of Britain's European strategy is to be found not in any official document, but in an old television show, “Yes Minister”, which was a favourite of the then Mrs Thatcher's. In an episode from 1980, Sir Humphrey, the feline civil servant, explains to his bewildered minister: “Britain has had the same foreign-policy objective for at least the last 500 years: to create a disunited Europe.” Enlargement of the European club, he adds, is the key: “The more members it has, the more argument it can stir up, and the more futile and impotent it becomes.” Any resemblance between a 25-year-old comedy show and real life is, of course, entirely coincidental.

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Women and work

Sex changes

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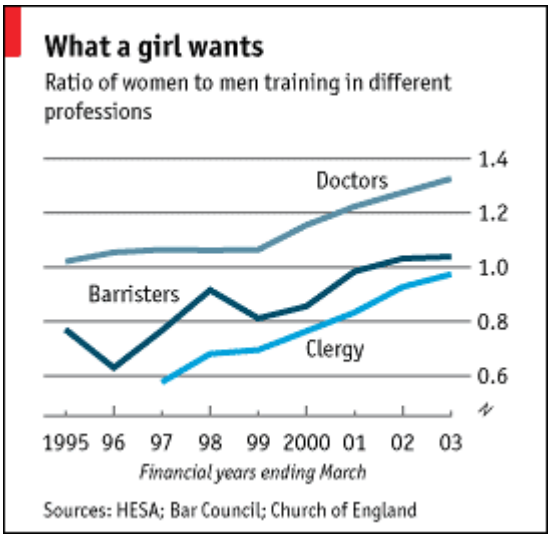
Women are gaining equality in professions that used to be male preserves, but not complete equality

"GLASS CEILINGS" supposedly prevented women from flourishing in professional careers. But take three walks of life which used to be overwhelmingly male: medicine, the church and the law. All are going female. In doctoring, female medical students have outnumbered male ones since the early 1990s. In law, there are now slightly more women than men "called to the bar" (admitted to practise as trial lawyers). In the Church of England, where women have been eligible for ordination only since 1992, their numbers have been shooting up. By the last count, two years ago, they had nearly overhauled men; soon, if not already, there will be more women being ordained than men.

But the glass ceiling is giving way to glass partitions: women are not spreading out evenly across these professions. Instead, they are concentrating in the less well-paid bits of them. In medicine, for example, women tend to go into general practice (all-purpose family medicine). In London, 70% of new GPs are women.

As women take over, general practice is changing. Half of female GPs choose to work part-time, compared with one in ten of their male colleagues. New contracts have made it easier for them to work fewer hours. That's why so many doctors are abandoning out-of-hours services. The traditional image of the GP—who like Dr Charles Bovary in Flaubert's novel was expected to ride off on his horse at any time of the day or night to go to the aid of a patient—has changed. They also tend to be salaried employees, rather than partners—making them more mobile.

Family-friendly working conditions mean that female GPs abound, but higher-paid hospital medicine (such as surgery and gynaecology) remains largely the preserve of men. Pippa Gough, a fellow at the King's Fund, a think-tank, recalls that when she was a nurse, "the gynaecologist used to appear wearing a bow tie and a fresh rose in his lapel." Such old-fashioned props may have gone now, but there are still few women in areas where competition is fiercest and earnings highest. Helen Fernandes, a surgeon at Addenbrooke's Hospital in Cambridge, reckons that many women are put off surgery by the expectation that they have to be constantly available for work. "You can't leave in the middle of an operation, even if you have a child to pick up from the nursery and will lose your place there if you are late." But such demanding specialisations are also the most lucrative ones.



Barristers are following a similar pattern. As was once the case with doctors, climbing the career ladder means always being available for work and sticking with a case until it is settled. Though the Bar Council, the body that regulates and represents trial lawyers, has recently required all barristers' chambers to formalise their policies on maternity leave, this has not altered those demands. This is particularly true of the best-paid work at the commercial bar, where cases can drag on for years and the weekend is often a misnomer. Women tend to focus on work at the criminal bar, where cases are shorter, less glamorous, less demanding—and less well paid.

Numbers are sketchy, but anecdotal evidence suggests that few female commercial barristers return to work after having babies. Some chambers are trying to find ways of making life easier for women and thus encouraging them to come back after childbirth. “Babysitting” cases for barristers on maternity leave is being tried out, but clients may baulk at having their cases looked after by an *au pair*. Christa Richmond of Middle Temple, a medieval outfit that serves as a barristers' guild, worries that those mothers who do return to the commercial bar will “revert to type”, taking only short, low-profile cases.

It is the same story in the Church of England (where women are still barred from becoming bishops). Women are well placed to meet the demand for more part-time clergy, created by declining churchgoing: a shrunken congregation may not merit a full-time priest. Women priests also show a preference for non-stipendiary (unpaid) work: the most recent figures show 314 women training to be non-stipendiary priests, compared with just 200 men. Whatever their pastoral value, such clergy are less likely to secure the top jobs in the Church, if they are ever allowed to apply for them.

Feminists have long had two aims for the workplace. First, that women should be equally represented across the workforce and in all types of jobs. Second, that the sisterhood should be paid as much, or as little, as men doing the same job. They thought these aims were complementary: in fact, they may conflict.

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Making poverty history

Good rocking

Jun 2nd 2005
From The Economist print edition

Has a G8 summit ever been so hip?

IT IS 20 years since Bob Geldof organised Live Aid, in which rock stars raised a fortune for famine relief. It made headlines, but, alas, little difference to third-world poverty. Now, on the eve of the rich country (G8) summit in Scotland next month, Sir Bob is trying again, organising simultaneous concerts in London, Philadelphia, Berlin, Paris and Rome on July 2nd.

The project is trendily titled Live8, but this time the goal is not to raise money, but to support a campaign called Make Poverty History, which wants debt relief for poor countries, fairer trade terms, and more aid. After the music stops, Sir Bob hopes that 1m people will march on Edinburgh, the nearest city to the security-ringed summit venue.

The gig is breaking all records for celebrity endorsements, ranging from veterans like Stevie Wonder, Bono, Madonna and Sir Elton John to a newer generation of singers including Coldplay and 50 Cent (whose first album exhorted fans to “Get Rich or Die Tryin' ”). Richard Curtis, writer of “Four Weddings and a Funeral”, is devoting 2005 to fighting poverty, and has made a film on the subject, “The Girl in the Café”. In January, Dawn French, who plays a female vicar in a television comedy, led a delegation of real-life women clergy to lobby Tony Blair. Rumours that Dame Ellen MacArthur will head a flotilla of celebrity yachts off the coast, while Brad Pitt leads a squadron of executive jets overhead, are alarmingly credible.

But a focus-group study conducted by Synovate, a market research firm, for Make Poverty History, which *The Economist* has seen, produced some jarring findings. For a start, the public thinks that third-world poverty is an off-puttingly complex subject. Celebrity cheerleading, arguably, might help change that. But secondly, public attitudes to the three main planks of the campaign are sceptical—intelligently so, some might say. Participants reckoned that much extreme poverty is internally generated, not least by corrupt poor-country governments. On debt, the focus groups wanted cancellation only if there was no further lending. Likewise, they did not favour more unconditional aid. As for “fair trade”, Synovate reports, “no one really understands this issue”.

The study also spots a problem with celebrity backing: too many of them are associated with other causes—if only by sporting the current craze, a coloured wristband. “For example, Sienna Miller, [an actress] shouldn't be seen in a blue band one day and a white band the next, as this will negatively impact [...] over the whole campaign.”

Synovate notes that the public is already confused about which cause is attached to which band. That's understandable. Nelson Mandela handed out white bands for Make Poverty History in central London, but the same colour is also used by anti-abortion campaigners. Blue stands for anti-bullying, anti-Bush and research into prostate cancer. Nor is it clear that wristbands contribute much to fundraising. Some are sold on market stalls with no connections to the original causes. And, embarrassingly for the anti-poverty campaigners, some may be made in the same “sweatshops” that they (mistakenly, free-traders would say) so deplore.

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Tall trees

Hedge row

Jun 2nd 2005
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A law to check tyrannical topiary

ANTI-SOCIAL behaviour normally refers to the noxious acts of teenagers wearing hooded tracksuits, not adults in their gardening clothes. But one provision of the Anti-Social Behaviour Act 2003 that came into force this week is aimed only at people wielding watering cans. From now on, neighbours will be able to involve their local council in disputes over the height of a hedge. This sounds trivial, but battles over hedge heights in the suburbs can become surprisingly fierce.

People plant evergreen hedges to keep their neighbours out. Fast growing ones like *cupressus leylandii* are particularly popular, because they provide a high green wall in little time. They have become so ubiquitous that if *"Desperate Housewives"*, an American television serial, were set in Britain, the *leylandii* would play a lead role, hiding extra-marital affairs from public view. "Screened by shrubs,/Walled-in from public view,/Lived the kept women," John Betjeman wrote in "Metro-land".

But tall hedges may rob other houses' light, or spoil views. Clare Hinchliffe, who runs a lobby group called Hedgeline for "hedge victims", says that some of its members who have taken chainsaws to the problem have been imprisoned, while others have had to pay fines and large legal costs. Now the tables have been turned, and the owners of hedges over two metres tall can be fined up to £1,000 ($1,850) if they refuse to tame their unruly shrubs.

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Suburbs

Wisteria lane

Jun 2nd 2005 | STRATFORD-UPON-AVON
From The Economist print edition

How John Prescott and Prince Charles are reshaping the suburbs

SUBURBS have been sneered at in Britain for as long as they have existed. In 1904, following the first wave of late-Victorian villa building, the *Times* wrote that surrounding London with suburbia would "produce a district of appalling monotony, ugliness and dullness." The suburbs have found enemies on the left, because people moved there to get away from the sorts of problems that socialists wanted to fix; and among the rich, because suburbs eat up the countryside and replace it with banality. "Slums," wrote Cyril Connolly, "may well be breeding grounds of crime, but the middle-class suburbs are incubators of apathy and delirium."

Those who live in the suburbs, however, rather like them. They particularly like having more space, a new house on the edge of town, gardens for their children to play in, and somewhere convenient to park their cars. Suburbs are so popular that about 84% of people in England now live in them, according to the Commission for Architecture and the Built Environment. So it ought to matter little that architectural snobs think suburbia ugly and repetitive. Except that the government agrees with them, and is trying to change the look of the suburbs.

Trinity Mead, a development of about 800 new houses on the edge of Stratford-upon-Avon, is one place where the government-approved suburban aesthetic is being tried out. Instead of rows of identical houses, each with a garage and a slice of garden at the front, the houses at Trinity Mead look like they have been transplanted from an English village. A typical street has some two-storey houses and some three-storey ones. The houses are made of different-coloured brick (a few are pale yellow); some roofs are covered in slate and some in terracotta-coloured tiles. Some have Georgian-style details and some look more Edwardian. And all the houses sit hard up against the streets, with little space for car parking.

The most noticeable change is in the density of the housing. Old-style suburbs fitted about nine houses into one acre of land. Guidelines from the Office of the Deputy Prime Minister (John Prescott) that came into force in 2000, tell planners to approve only developments that have between 12 and 20 households in the same space. There are two reasons for this. First, the government is wary of upsetting existing homeowners by letting the suburbs sprawl into the countryside proper. Second, it thinks that denser housing makes for better communities and will reduce the reliance of the suburbs upon the car.

To back up these assertions, planners point to Poundbury, a development outside Dorchester, presided over by the Prince of Wales. Construction started there in 1993, and Les Greenwood, a planning officer at Stratford council, reckons that Poundbury has been influential in showing planners how high-density villages might replace suburbs at the edge of towns. Car parking at Poundbury is meagre. The government too now advises planners to reject schemes with more than 1.5 parking spaces per household.

But if people move to the suburbs to gain space for themselves and their cars, how will they like living so close to their neighbours? And may they resent, as Mark Clapson of Westminster University puts it, "being made to feel guilty about having a car"? They may not have much choice: demand for new houses so far outstrips supply that housebuilders do not have to worry too much about responding to market signals.

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Identity theft

Your money and your life

Jun 2nd 2005
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Identity theft is worrying, but old-fashioned fraud costs more

REMEMBER when criminals did obvious things like break windows and knock old ladies on the head? These days, they are up to something more sinister. Identity theft is “the in thing”, notes Roger Cook, head of a specialist business-funded police squad founded in 2002. It worries the public and the government, which claims that it costs at least £1.3 billion per year. And it has become one of the many justifications for the proposed national identity card scheme.

Identity thieves use stolen or forged documents such as birth certificates and utility bills to obtain credit, in effect trading on somebody else's name (and, in the process, ruining it). A related fraud involves hijacking a bank or credit card account by impersonating a genuine customer and redirecting their mail.

Somebody suffers in both cases: that makes identity fraud different from the “victimless” frauds commonly perpetrated against banks and the welfare state. Hence the public disquiet; hence also the popularity of paper shredders and other defences. Capital One, a credit card company, has run television adverts featuring a fictitious identity thief and touting its anti-fraud measures. Credit reports are in demand, too. Five years ago, 97% of people who applied to Experian, an agency, for a report did so because they had been turned down for a loan. These days, half do so for other reasons, including the fear that their identity has been stolen.

For all that, identity theft is rare. Losses from fraudulent applications and hijacked accounts amounted to £36.9m last year, according to the Association for Payment Clearing Services, a trade body. That is 7% of all plastic card fraud. More was lost through forged and doctored cheques—a crime that has grown faster than identity theft since the late 1990s, even though cheque usage is shrinking.

While attention has focused on the most elaborate frauds, two simple schemes have grown quickly and now account for more than half of the £505m plastic card fraud bill. In the first, legitimate cards are stolen on the way to their destination. The crime is popular at the moment because new “chip and PIN” cards, which are hard to forge, are being sent to millions of customers. In the second, criminals obtain credit card and bank details in order to buy goods over the phone or the internet. That the victim's reputation is preserved may be little consolation.

These crimes are lucrative in part because the fraud business has become more efficient and competitive, according to Mick Deats of the National Hi-Tech Crime Unit. Emulating the loose networks of the drug-trafficking industry, criminals buy and sell account numbers in an international open market, often online. “In law enforcement, you prefer hierarchical structures,” says Mr Deats. “But in this case there may be nobody in charge.”

Thanks to this change, the work—and the risk—involved in nicking a person's identity seems less worthwhile. Why go to the trouble of impersonating somebody just to obtain a couple of credit cards when you can buy account numbers and goods without setting foot in Britain? Most frauds netted more money in 2004 than ever before. One of the exceptions was the creation of accounts in someone else's name—which is the thing that most concerns the public.

Another misrepresentation is partly to blame. The government's estimate that identity fraud costs £1.3 billion per year was obtained by adding the figure for overall plastic card fraud to such things as bogus insurance claims and the cost of dealing with immigrants who arrive in Britain with false documents. Fraud, indeed.

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Mobiles and trains

Wails on the rails

Jun 2nd 2005
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The communication age comes to the railways

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TRAVELLING on London's underground system can be a trying experience, thanks to overheated passengers, overcrowded trains and delays caused by repair work. But at least Tube travellers endure their ordeal in dignified silence: mobile phones do not work on the deep lines under central London, and there is only patchy coverage elsewhere. But that's about to change. Transport for London (TfL), which runs the Tube, this week announced plans to provide mobile phone access in all 275 of its stations by 2008.

Many other cities—including Paris, Hong Kong, Berlin and even Newcastle—already have coverage on their metro networks. But TfL says that its new system should be more advanced than those in other cities, with support for fancy new 3G phones, as well as wireless internet access for laptop users. The system is likely to be extended from stations to trains in the tunnels, too. “In due course, the whole network will be covered,” says a spokesman.

If the experience of overland railways is any guide, that will come sooner rather than later. Some parts are wired already, and the technology is spreading. Network Rail, which runs the infrastructure, already offers wireless internet access to passengers at its 17 big stations, and First Great Western, a train operating company, has connected all 85 of its stations, too. But GNER, a long-distance train operator, is the furthest advanced: after a trial in 2003 proved wildly popular with its customers, it is upgrading its rolling stock with satellite dishes that will provide on-board internet access. Other operators are catching up: Virgin Trains expects to begin rolling out its own service by next year, and Southern Trains hopes to have 11 of its trains wired up by the end of June.

GNER describes its new trains as “mobile offices” and says, joyfully, that businessmen will be able to work even more productively while travelling. That's probably a good thing. But one unique selling point of railway travel is that it offers the chance to escape the office and catch up on reading or lost sleep, especially in rural areas where mobile phone coverage is patchy. Even the Tube offers a chance to read undisturbed, if you can get a seat. Enjoy it while you can.

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Telewest and NTL

Unite and conquer?

Jun 2nd 2005
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Rumours of a merger between Britain's two cable companies

ONE of Britain's longest-running merger stories resurfaced this week, with reports that Telewest, one of Britain's two remaining cable companies, had appointed Rothschild, an investment bank, to advise it on the possibility of a merger with its rival, NTL.

Industry-watchers have long predicted an alliance. Neither company has been able to compete effectively with Rupert Murdoch's Sky, a satellite-based subscription TV service. Sky stole a march on the cable companies in the mid-1990s with a programme of rapid expansion and carefully-chosen premium content (mainly Premiership football matches). The cable companies responded by offering telephone and internet access, but after a final spending spree fuelled by the dotcom boom, both firms crashed to earth, with NTL declaring bankruptcy in 2002 and Telewest losing £2.2 billion the same year. After restructuring, both companies are now looking healthier, although they have been left saddled with big debts. NTL owes £2.5 billion, Telewest £1.7 billion.

A merger makes sense, says Lars Godell, an analyst with Forrester Research, a consultancy. There is almost no overlap between the two companies' networks, and a united firm ought to be able to negotiate better deals with advertisers and content providers. And, crucially, operating under a single brand will help them compete against Sky in television, or against BT, the former state monopoly, in the more lucrative telephony and internet market.

For the moment, the cable companies are relying on the attractions of a “triple-play” package, which delivers telephone, television and internet access down a single wire, to attract new customers. In the longer term, they hope to differentiate themselves through products such as high-definition TV (HDTV), which offers much better pictures than normal broadcasts.

But Angel Dobardziev, an analyst with Ovum, a consultancy, points out that BT's network already reaches every household in the country. A planned £10 billion network upgrade over the next five years will allow the firm to slash costs. Sky has 2.5m more customers than the cable firms do, and plans for an HDTV service of its own. And there is new competition in the form of Freeview, a free-to-air digital TV service that has added 4.7m customers since its launch in 2002. Fighting on two fronts will be tricky, even if the rivals unite.

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Bagehot

Mr Howard's rotten exit strategy

Jun 2nd 2005
From The Economist print edition

Michael Howard's attempt to rewrite his party's rulebook has won him few friends

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TORY MPs returning to Westminster after their much-needed Whitsun break face a tricky decision. What, if anything, is to be done about their leader, Michael Howard?

In the four weeks since the general election, Mr Howard has managed to infuriate almost everyone. His jocular taunt to Tony Blair on May 17th that “the way to get your colleagues to ask you to stay is to set a timetable for your departure” now has a very hollow ring to it. Mr Howard's mistake was to believe that a leader who has promised to quit within seven months was in a position to force through complex and controversial reforms about the way the party organises itself.

Mr Howard has many virtues: he is intelligent, disciplined and industrious. But he is a hopeless strategist. That failing was apparent both before and during the election campaign when busy opportunism was preferred to making an attempt to articulate a coherent Tory vision of a better society than the one on offer from Labour. And it is only too apparent now.

Had Mr Howard set himself the limited objective of changing the rules for electing his successor, while being vague about the precise date when such an election would take place, he might have got away with it. But by conflating those changes with a number of others, all designed to concentrate power in the centre at the expense of local Conservative associations and ordinary MPs, he was asking for trouble.

It is not that the changes Mr Howard is seeking are wrong in themselves—for example, the dominant role of elderly and often reactionary party activists in selecting candidates is a real problem. So is the concentration of resources in safe Tory seats. But Mr Howard should have known it was not for him to undertake them. If nothing else, the fate of Jim Callaghan, who stayed on after losing to Margaret Thatcher in 1979 in the belief that he could perform one last service to his party, ought to have been a warning. Impotent in terms of both patronage and sanction, he achieved the exact opposite of what he intended, destroying his moderate ally Denis Healey's chances of succeeding him and unleashing the forces that led to the vicious civil war that contributed to Labour's exclusion from power for 18 years.

Mr Howard should also have understood the impossibility of conducting a serious internal debate about the direction and organisation of the party in the vacuum before a leadership election has taken place. This is not just because the outgoing leader lacks the necessary clout to steer such a debate, but because the argument about who should lead the party is also an argument about its direction. The leader the party chooses is likely to be a reflection of how far it is willing to embrace change. But it is then for the new leader to define what changes are needed and to fight for them. Labour became New Labour after Mr Blair became its leader, not before.

Mr Howard's foolhardiness has left him shorn not only of authority within the parliamentary party, but also of respect. Last week, there were rumblings about a challenge to Mr Howard if he refused to bring his departure plans forward, which, under the existing rules, could be mounted if 30 MPs were to sign forms for a ballot. MPs say they are horrified by the prospect of six months of “paralysis” and they dread that the party conference in October will be a catfight between competing candidates rather than an inspirational re-launch under a new leader. In response, Mr Howard admitted that his proposals “could have been better handled” and promised that the party's 900-strong national convention, which is set to meet a week before the conference, will be allowed separate votes on the leadership rules and the constitutional reforms. But, to widespread exasperation, he dismissed any thought of changing his timetable.

If there is to be a challenge to Mr Howard, it will only come from one quarter—the supporters of David Davis, the shadow home secretary. The admirers of Mr Davis, several of whom served with him in the whips' office when John Major was prime minister, have a well-earned reputation for plotting. Furthermore, they suspect that one of Mr Howard's motives for wanting to return to MPs the sole right to elect the leader is that Mr Davis, who he distrusts, enjoys more support among party members than he does among his Westminster colleagues.

A waste of effort

But for all the huffing and puffing, with only seven weeks to go before the long summer recess, the likelihood of a challenge to Mr Howard is remote. If Mr Davis feared that delay might cost him his chance to succeed Mr Howard, it would be a different matter. However Mr Davis, who has established himself as the clear frontrunner, has everything to lose and very little to gain from wielding the assassin's knife. According to a YouGov poll of party members in the *Daily Telegraph* this week, Mr Davis is the first or second choice of 54% compared with his closest rival, David Cameron (Mr Howard's young protégé) who has the backing of 30% and Kenneth Clarke who is preferred by 19%.

Perhaps a little more surprising are the signs that support among MPs is also flowing strongly towards Mr Davis. Partly it is the absence of a convincing candidate of the right age to represent the centre-left (Mr Cameron is 38, Mr Clarke is 64). Partly it is irritation with Mr Howard's clumsy attempts to improve Mr Cameron's prospects. Mostly, however, it is because Mr Davis already has the aura of a winner and nobody wants to miss out on their own future advancement within the party by pledging support to a doomed rival.

To Mr Howard's chagrin, such is Mr Davis's momentum it is not inconceivable he will ascend to the leadership without the bother of an election—whether on the old or the new rules. Tory MPs will be hoping that Mr Davis is a better strategist than his unhappy predecessor. He could hardly be much worse.

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American business

Boeing gets back on track

Jun 2nd 2005 | LOS ANGELES AND SEATTLE
From The Economist print edition

AP

As America goes on the offensive over subsidies to Airbus, Boeing, its biggest exporter, is learning valuable lessons from its rival's success

Get article background

ANOTHER week, another twist in the eternal struggle between Airbus and Boeing. On May 30th, the American government began the latest round by announcing that it will take a case challenging European government subsidies to Airbus to the World Trade Organisation (WTO). The next day, the European Union (EU) filed a counter claim against the American government's aid to Boeing. The two sides had been trying (sort of) to settle the dispute in bilateral talks since late last year, but the Americans broke them off after Airbus applied for further aid to launch its new mid-sized A350 aircraft, designed to compete with Boeing's great white hope—the 200-300-seat 787, aimed at the fast-growing long-haul market.

This dispute has rumbled on since the late 1980s, when Airbus first started to weaken America's dominance of the commercial aircraft market. A truce in 1992, limiting “refundable launch aid” to Airbus to one-third of development costs and Boeing's subsidies from government to 4% of its turnover, lasted until 1998. By then Airbus was steadily approaching 50% of the market. Last week Boeing's chairman, Lew Platt, conceded that, with hindsight, he wishes that Boeing had gone ahead in 1998 with a case it had prepared, supported by the Clinton administration, challenging subsidies to Airbus before the launch of the European firm's super-jumbo, the A380. But Boeing and its allies backed off. The new plane was successfully launched, with over 150 orders so far and at least 50 more to come at the Paris air show, which opens on June 13th (though the plane is six months behind schedule).

Now Boeing is gunning for the latest Airbus, the A350. An early buyer is supposed to be the new airline to be formed by the merger of America West and US Airways; indeed Airbus is pumping $250m of unsecured finance into the merger to land the deal. But the possibility that 100% import duties might be levied by America on Airbuses following a WTO ruling may deter further American purchases. The WTO is thought likely to find that both sides have breached subsidy rules. That prospect may create pressure for the two firms to—again—seek a negotiated bilateral settlement, if only to avoid a wider trade war.

Sleepless in Seattle

For a company that in the past 18 months has lost two chief executives and one chief financial officer, and faced scandals involving alleged industrial espionage (against Lockheed), dodgy dealings with a Pentagon official (a former government employee and a former Boeing boss are doing time) and a sex story starring Harry Stonecipher, the man drafted in as chief executive to clean up the ethics mess, Boeing is doing astonishingly well. Its share price has been strong; profits have recovered; mountains of cash are piling up.

Mr Platt and the board are taking their time choosing a new chief executive, but now have a shortlist of five, including the head of Boeing's defence business, Jim Albaugh, and Alan Mulally, who has steered Boeing Commercial Airplane Group through its worst ever crisis—the industry downturn that began in 2001, triggered by recession and terrorism. But the ethics issue rumbles on. Mr Platt, who once ran Hewlett-Packard, says that, unlike his old firm, Boeing does not yet have a values-based culture of ethics but, rather, an ethics policy driven by rules. But he hopes that ethical behaviour will soon be embedded in the corporate culture. The last person to pursue this goal, Mr Stonecipher, succeeded more infamously in embedding a female Boeing executive—a fact that surfaced in office e-mails so embarrassing that the board decided he had to go.

Boeing has nevertheless found the energy to raise its game, with Mr Platt (a non-executive chairman) and James Bell (chief financial officer) sharing the chief executive burden. Its defence operation has changed its business model, deftly switching focus from merely building fighters and so on as weapons platforms to becoming a prime contractor delivering “integrated battle systems” for American forces (it had to, after losing a huge joint-strike-fighter deal to Lockheed Martin), and linking together equipment and systems, often made by outside firms. Now its Integrated Defence Systems business has an order backlog of over $80 billion, more than any other defence contractor in the world.

Boeing Commercial has avoided the scandals that dogged the defence business. But it has been outclassed by Airbus since 2003, when the European firm began to deliver more planes than Boeing, following several years of winning more orders. Last year Airbus earned €20 billion ($25 billion) from delivering 320 planes. Boeing sold 285 planes for $21 billion. Now Boeing is fighting back, winning 265 firm orders so far this year, compared with Airbus's 145. Including potential orders in the pipeline under provisional deals, Boeing's total is far greater (up to 472). The 787 alone has netted 261 orders and firm commitments since its launch at the end of 2003: within a few years Boeing may have won back over half the market from Airbus. No doubt Airbus will claw back some lost ground with orders at the Paris show, but the underlying trend is a Boeing bounce-back.

Why? Boeing is reshaping its business model to take account of the fact that in commercial aircraft it now has a rival whose success in reality owes far more to excellence and flair in product development than government subsidy. For a long time Boeing believed its subsidy rhetoric, not recognising that Airbus's superior operating margins (ie, before any subsidy advantage kicked in) were part of its winning formula. Building planes for less gave the European firm scope for aggressive pricing. That is how, for instance, Airbus broke into the huge market for supplying single-aisle planes (the A320 family) to low-cost carriers—once the preserve of Boeing's 737.

When the market for big jets collapsed after the terrorist attacks of September 2001, Boeing drew in its horns, halving production. But Scott Carson, who became head of sales late last year, has produced a spectacular run of orders, including huge deals from Air India and Air Canada (both long-time Airbus buyers). Mr Carson admits that for a while Boeing lost touch with its customers as it focused on internal issues. Now it is taking a leaf out of the Airbus book by working closely with leasing companies, for instance, to help airlines find homes for second-hand aircraft to ease their purchase of new ones.

One big pay-back from the period of internal focus, however, is obvious at the Renton factory in Seattle, where Boeing churns out its 737s. Until recently Renton was full of planes parked at angles with mechanics swarming over them; the aircraft were re-positioned at the end of the shift for the next day's work to take place in an adjacent bay. Now Boeing's Renton factory is more akin to a Toyota car assembly line. In one end trundle aircraft fuselages that have come by rail from a former Boeing factory in Kansas now owned by a private-equity company. The aircraft bodies are then hooked onto a moving assembly line. Out, at the other end, roll complete aircraft with wings, tails, cockpits, toilets, galleys and seats. There are other tricks of the Toyota system—visual displays of work progress; alarms to stop production if a quality problem emerges.

Such modernisation is helping Boeing to rival the manufacturing efficiency of Airbus. A system of worksharing, designed for political purposes, gave birth to a distributed manufacturing process, with final-assembly being a snap-together affair in Toulouse and Hamburg, which long gave Airbus a production advantage. With lower costs, Boeing has lately been able to match Airbus's keen pricing.

Boeing is also mimicking Airbus's extensive product range. After a rather fallow period (except for the 787) the Seattle company is launching a new, larger version of its successful 737 model, to fight Airbus in the niche for single-aisle planes carrying just over 200 passengers. Egged on by carriers such as British Airways, Cathay Pacific and Singapore Airlines—which love the Airbus-Boeing rivalry—it may soon launch a stretched version of its venerable 747 to take on the Airbus super-jumbo.

But there is much irony in the final lesson that Boeing has learned from Airbus. The business model for the 787 includes a risk-sharing partnership with three Japanese firms (the heavy industry arms of Mitsubishi, Fuji and Kawasaki). Together they will design and build the box that ties together the wings in the fuselage—the largest structural part of the wings. This is advanced aircraft work that the Japanese firms have craved for years. To land it they have the help of some $1.6 billion of repayable launch aid from the Japanese government—the mirror image of what Airbus gets in Europe. Though the aid goes only indirectly to Boeing, the EU's complaint to the WTO includes it in its list of subsidies from which the American firm benefits.

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The jerk at work

Wise enough to play the fool?

Jun 2nd 2005
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In praise of lovable bunglers

IT IS a universal dilemma. What to do with the jerk at work, the person who is so disliked by their colleagues that no one wants to work with them? The traditional answer is to tolerate them if they are at least half-competent—on the grounds that competent jerks can be trained to be otherwise, while much-loved bunglers cannot.

An article in the latest issue of the *Harvard Business Review* suggests that such an approach seriously underestimates the value of being liked. In a study of over 10,000 work relationships at five very different organisations, Tiziana Casciaro and Miguel Sousa Lobo, academics at Harvard Business School and the Fuqua School of Business respectively, found that (given the choice) people consistently and overwhelmingly prefer to work with a "lovable fool" than with a competent jerk.

The authors suggest that as well as training jerks to be more charming—although "sadly there are people who are disliked because they are socially incompetent, and probably never will be truly charming"—companies should also "leverage the likeable". Amiable folk should be turned into "affective hubs", people who can bridge gaps "between diverse groups that might not otherwise interact".

Re-evaluating jolly types who spend long hours hanging round water-coolers is currently fashionable. Ronald Burt, a sociologist at the University of Chicago and a leading proponent of "social capital"—an explanation of "how people do better because they are somehow better connected with other people"—has written a book ("Brokerage and Closure", to be published by the Oxford University Press later this summer) in which he describes the "clusters" and "bridges" that are typical of organisations' informal networks. Mr Burt calls the people who form bridges between clusters "brokers"; they resemble Ms Casciaro's and Mr Sousa Lobo's affective hubs. In practice, Mr Burt has found that brokers do better than people without the social skills to cross the spaces between clusters.

A book published in English this week, but already a *cause célèbre* in France, portrays most employees as fools—lovable or otherwise. Corinne Maier's "Bonjour Laziness" (Pantheon Books) is a worm's-eye view of a corporate world where only three creatures exist: sheep ("weak and inoffensive"); pests ("poisoning the general atmosphere"); and loafers ("their only aim is to do as little as possible"). In the view of Ms Maier, a practising psychoanalyst as well as a part-time employee of EDF, a French power firm, pests (ie, jerks) rule the corporate world. (So does being a jerk give you the skills needed to get to the top? And only in France?) The rest can only hope to lie low and await their pension. *Les Misérables*! But, assuming you are lovable, far better, surely, to follow the Burt route: head straight for the water-cooler.

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Indian electricity

Powerlessness

Jun 2nd 2005 | MUMBAI
From The Economist print edition

An electricity crisis revives India's biggest foreign-investment project

Get article background

AS INDIA heats up like a pressure-cooker waiting for the monsoon to release its valve, even the well-off notice the country's dire electricity shortage. Too often the soothing rattle-and-purr of their air-conditioners fades into sweaty silence. Last weekend, the prime minister, Manmohan Singh, said that the country faced a power shortage of 11% of demand—and he was taking a very modest estimate of demand. In Maharashtra, India's richest state, the deficit is 19%. Mumbai, the capital, which is not served by the Maharashtra State Electricity Board (MSEB), has been spared the worst. But the MSEB says the countryside is without electricity for eight hours a day, and other cities for at least three hours.

In Maharashtra, unlike elsewhere in India, part of the solution is obvious. The state-of-the-art 2,200-megawatt Dabhol power station would meet more than half of the state's shortfall. But Dabhol has been dogged by controversy. It has already cost $2.9 billion, to make expensive power for a buyer that could not afford it.

Promoted by Enron, the defunct energy giant, the first phase of the project started operation in 1999, generating 740 megawatts of electricity and selling it to the MSEB. In 2001 it was shut, after the MSEB stopped paying. Phase two, which would have added another 1,440 megawatts, was left four-fifths complete. The MSEB says that both phases could be ready in a year. This week, General Electric (GE), which with another American giant, Bechtel, bought Enron's stake and controls 85% of Dabhol, announced it was joining a team to decide how to restart the project.

Years of wrangling between shareholders, creditors, customers and suppliers—this week Bechtel tried to legally seize all the shares in Dabhol controlled by the MSEB— now appear close to an end. Analysts expect two Indian public-sector firms—GAIL, a gas marketer and distributor, and the National Thermal Power Corporation, the largest electricity utility—along with some Indian banks and the MSEB, to become the project's owners. The MSEB would strike a new power-purchase agreement. Jayant Kawale, its chairman, says that the starting-point is an acceptable tariff of around 2.20 rupees (5 American cents) per “unit” (kilowatt-hour), in line with its other supplies. In Dabhol's previous incarnation the price was 7-8 rupees a unit, or, sometimes, as much as 25 rupees.

Big obstacles remain, but there seems to be a determined effort to end the fiasco—which did much to sully India's name as an investment destination—before Mr Singh visits George Bush in July.

Maharashtra's—and India's—broader power crisis will be even harder to solve. With 35% of the state's population, and nearly half of the country's, still having no access to electricity, and the economy growing by over 6% a year, demand is set to grow far faster than supply. Uneconomic pricing does not help. As in some other states, the government in Maharashtra, which faced elections last year, gave farmers free electricity for irrigation pumps and, in effect, everything else. That sop was withdrawn this month, but farmers still enjoy subsidised power.

Industry, meanwhile, pays over the odds. Big firms are investing in their own generators. There is a boom in commercial consumption as developers build ice-cool multiplex cinemas and shopping malls. One-third of the MSEB's supply goes in “transmission and distribution losses”, according to its own (understated) figures.

Two years ago, India's parliament passed a law aimed at reforming the power industry to rid it of these chronic troubles. The state electricity boards, such as the MSEB, would be “unbundled” into separate

generation, transmission and distribution companies—still to happen in Maharashtra, though this week a new MSEB holding company and three subsidiaries were formed. Under these reforms, private-sector participation would be encouraged; tariffs would be rationalised. Since then, however, only two states have privatised distribution. In one of them, Delhi, an “unbundled” private distribution company, has succeeded in reaching its five-year target for cutting transport and distribution losses in just two years.

Mr Singh's government has only recently picked up the gauntlet of power-sector reform. He himself spoke out last weekend against giving farmers free power, prompting a rebuke from the Communist parties allied to his ruling coalition. They are also jealous protectors of the interests of workers at state electricity boards. This month, as it did when it came to power a year ago, the government extended the deadline for unbundling these boards, this time until December. But Mr Singh is now pushing the reforms—needed, he says, if power is to be “the engine of growth”. It is still likelier to be the circuit-breaker.

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Corporate espionage

I spy, you spy

Jun 2nd 2005 | JERUSALEM
From The Economist print edition

Israel's business world achieves total transparency

FOR now, all anyone can do is gawp. Israel's (by some accounts, the world's) biggest-ever corporate-espionage scandal has implicated some of the country's top companies, and as the days go by the list of those arrested or being questioned is growing.

The affair started as an author's complaint to the police last autumn, after parts of a book he was writing appeared on the internet. It turned into the bizarre discovery that three respected private-investigation firms had hired his disgruntled former son-in-law to write custom-made virus software for their clients. He or a partner had previously even offered similar software to the police, but had been rebuffed, because it did not meet their needs (say some) or because he was too shady (say others).

For a few thousand dollars apiece, the so-called “Trojan horse” virus enables users to browse their competitors' computers at will. Tens of thousands of sensitive documents were duly downloaded. The alleged perpetrators include a leading car importer, a water-purifier firm and a paintmaker; a consulting firm that allegedly spied on a journalist who had herself been snooping around the firm concerned (albeit by the low-tech and somewhat less illegal method of talking to its employees); and, most scandalously, three subsidiaries of Bezeq, the national fixed-line telecoms monopoly. Bezeq itself may have been the victim of spying by another company using the same software.

Why did all the private investigators engage in such blatantly illegal methods? How could so many corporate bosses either acquiesce or (as they are now clamouring in unison) simply not realise? Some commentators blame the nature of Israel's economy: small, competitive, dominated in each sector by a few firms, over-burdened by taxes and regulations that encourage companies to cut corners.

And why were the police's suspicions not aroused when they were first offered the technology? A spokesman shrugs it off: “It's not the program that's illegal, it's the way you use it. Someone can offer to sell guns to the police. That doesn't make him a murderer.” Maybe not; but would they not at least check up on him a little?

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Mexican business

Going South

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From The Economist print edition

A Mexican tycoon quits New York

HE IS one of Mexico's richest men, with controlling stakes in TV Azteca, the country's second-biggest broadcaster, Iusacell, a big mobile-phone firm, and Grupo Elektra, a home-appliance retailer. On June 1st, all three firms held extraordinary shareholder meetings to ratify Ricardo Salinas Pliego's plans to delist their shares from the New York Stock Exchange.

The delisting comes in the wake of an investigation by America's Securities and Exchange Commission (SEC) into a debt transaction from which Mr Salinas Pliego allegedly benefited personally to the tune of $109m. The SEC alleges that, via Codisco, a shell company he secretly controlled, Mr Salinas Pliego bought at a large discount $325m of debt owed by Unefon, a subsidiary of Azteca. The SEC claims that Mr Salinas Pliego bought the debt from Nortel Networks, a Canadian telecoms firm, knowing that, a few months later, Azteca would pay back Codisco in full. In January, the SEC filed charges against Azteca, Mr Salinas Pliego and two other directors.

When the SEC announced its lawsuit, many a pundit observed that it was a good thing that the American regulator was stepping in, because Mr Salinas Pliego appeared to have free rein in Mexico. Alas for him, that proved to be false—in April, the National Banking and Securities Commission, Mexico's equivalent to the SEC, fined him 27m pesos ($2.5m) in regard to the same debt transaction. True, that is peanuts if he did indeed make over $100m on the deal. But the Mexican finance ministry is widely believed to have handed files relating to this case to the prosecutor's office, which may lead to an indictment.

If delisting from New York is intended to insulate Mr Salinas Pliego from American regulators, that may be wishful thinking. Because his three firms will probably continue to have at least 300 beneficial holders of their shares in America, they will still be subject to SEC reporting rules.

True, Mr Salinas Pliego may yet triumph in court. (Certainly, his outspoken rhetoric, including accusing the SEC of suing him to make up for its alleged deficiencies in regulating American companies, suggests that he may be reluctant to settle out of court.) He maintains that the transaction was in the best interests of shareholders. Indeed, he remains unapologetic, having gone on the offensive with a television programme that accuses Francisco Gil Díaz, Mexico's finance minister, of pursuing a vendetta against Azteca because the station is investigating the sale in 2001 of Banamex, one of Mexico's biggest banks, to Citigroup in 2001. The programme claims that Mr Gil Díaz was involved in a scheme to reduce tax by floating Banamex on the stockmarket rather than selling it in a private transaction. Azteca also alleges that Mr Gil Díaz offered a deal in which the ministry would not act against Mr Salinas Pliego over the debt transaction if Azteca dropped its inquiry into Banamex. Mr Gil Díaz and the ministry deny all of this.

The ongoing investigations may have a surprisingly modest impact on the shares of Mr Salinas Pliego's firms. José Luis Ramírez of Deutsche Bank points out that this controversy started brewing in 2003—Deutsche has had a sell rating on Azteca's shares since January 2004. Presumably, anyone still owning shares in Mr Salinas Pliego's companies has a high tolerance for risk. In the coming months, that tolerance may be tested vigorously.

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Incumbent versus innovator

Schizophrenia

Jun 2nd 2005
From The Economist print edition

The clash of the two Microsofts

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DOES Microsoft suffer from a split personality? As one half of the giant corporation continues to slug things out with regulators, the other is stepping out as a sexy technology firm. Old Microsoft is an industry incumbent and convicted monopolist, defending to the death its legacy Windows operating system. New Microsoft is an innovative consumer-electronics firm with the leading online gaming service, and which uses trendy marketing techniques to generate buzz.

On May 31st, after much dithering and grandstanding, Microsoft submitted its plans to European Union (EU) antitrust regulators, detailing how it intends to comply with penalties imposed last year for its anti-competitive activities. Yet as Old Microsoft tests the patience of regulators, New Microsoft is leaving legal worries behind and emerging as a dynamic firm. In May, it unveiled the upcoming version of its Xbox gaming console directly to consumers via MTV rather than—in the traditional way—at an industry conference. It is even deploying a hip technique called “alternate reality marketing”—basically, a surreal treasure hunt both online and off—to popularise the product with consumers. (See ourcolony.net to get with it.)

New Microsoft's gaming business—selling consoles and developing games—may be losing billions of dollars, but it represents much of the firm's future. “It's all about trying to get Microsoft—from the software to the brand—out of the office, off the PC screen, and into the living room,” explains Paul Jackson of Forrester, a research firm. For middle-aged techno fuddy-duddies, Microsoft may remain synonymous with Satan; but already, for a younger generation, it is a cool company. What do they know, or care, about the firm's legal history?

Old Microsoft is now fighting on two fronts. One is the price it can charge rivals to access portions of software code that are needed so that products can interoperate smoothly. The firm says that this is intellectual property that it should be allowed to decide how to license. Its rivals say its terms are expensive, they block open-source products, and that—as the code is simply a matter of translating technical parameters—the intellectual property is nil.

Meanwhile the EU is considering whether to accept Microsoft's latest plan for complying with the antitrust sanctions imposed in March 2004. A decision is expected this summer. It may choose to force Microsoft to cut the price of a Windows operating system that it ships without Media Player software (to play audio and video files) as part of the antitrust penalty.

Meanwhile New Microsoft has said it will start a network-security service, sold on an annual subscription basis. It has expanded its drive into software for personal digital assistants and mobile phones. And in May it created a new division to license intellectual property, sometimes accepting stakes in start-up firms in exchange.

Put simply, New Microsoft is preparing for a day when Old Microsoft's Windows operating system and PC software no longer provide most of the firm's revenues. But for now, the company is torn between being an incumbent and an innovator. Send for a corporate therapist!

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Gazprom

Laughing gas

Jun 2nd 2005 | MOSCOW
From The Economist print edition

Russian corporate governance gets better. Slowly

WHEN the Russian government wants to cheer up disenchanted foreign investors, its favourite method is to make positive noises about lifting Gazprom's so-called “ring-fence.” Under it, foreigners can in theory only buy marked-up, London-listed “American depositary receipts” in the state-controlled gas giant, not ordinary shares. This gambit always seems to work—which, on the face of it, seems a little strange, because Gazprom remains perhaps the murkiest and financially leakiest of the world's big energy firms.

Each year, Hermitage Capital, which manages a fund for very rich people that is heavily invested in Gazprom, investigates the company, as part of a so-far fruitless campaign for a seat on its board. Its other aim is to end some of Gazprom's shadiest practices, and so improve the share price. And some of the worst scams—the stripping of billions of dollars worth of assets, and the like—have indeed stopped, making Hermitage's research less entertaining than in previous years.

But some time-honoured ruses persist. One is the bizarre subcontracting of Gazprom's pipes to deliver gas from Turkmenistan to Ukraine, diverting profit that ought to be Gazprom's. (The company refuses to comment on the allegations, but is said to blame the Ukrainians for this one.) Then there is the staggeringly and suspiciously high projected cost of Gazprom's new pipelines, driven by the purchase of materials from various intermediaries, including one reputedly set up by a secretary who lives with her parents; Gazprom's tolerance of unpaid bills; and so on.

One reason for Gazprom's enduring appeal is the discount at which it and its gas reserves trade. Even allowing for the controlled prices at which it has to sell gas inside Russia and the former Soviet Union, that discount is huge; big enough for Hermitage to have no qualms about bad-mouthing the stock. And the yearning of investors to open the ring-fence may finally be requited. The government still insists on its precondition that the state must get a stake of over 50% of Gazprom, but no longer as part of a scheme also involving the merging of Gazprom with Rosneft, a state-owned oil firm. Instead, the state will simply buy the necessary shares.

It plans to pay for them by partly privatising Rosneft. But will buyers rush in, given the risk of interminable litigation centred on Rosneft's purchase, after a rigged auction in December, of a big production unit taken from the once-mighty oil firm Yukos? Investors might also worry about the methods and intentions of Rosneft's management, which was powerful and tough enough to derail the Gazprom merger, even though it had been publicly backed by President Vladimir Putin.

On May 31st, a Moscow court finally sentenced Mikhail Khodorkovsky, Yukos's ex-boss, to nine years in prison for various alleged offences. He and his co-defendant/partner also face a big fine, and further charges. Expect more dodgy auctions of Yukos's remaining assets—accompanied by more “good news” on Gazprom.

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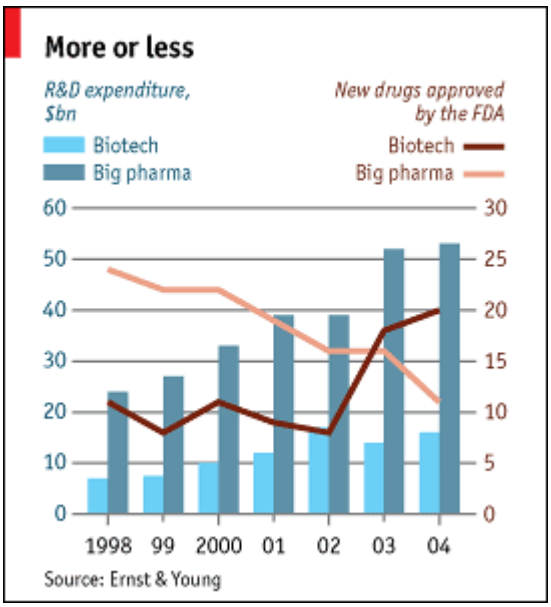
Biotech pharmaceuticals

From seed to harvest

Jun 2nd 2005
From The Economist print edition

The biotech industry is maturing



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AS ITS 30th birthday approaches, the biotech industry is maturing nicely. So says an annual review of the industry by Ernst & Young (E&Y), a consultancy. Last year, biotech companies again accounted for more new drug approvals by America's Food and Drug Administration than did big pharmaceutical firms, a long-awaited reward for investors who have poured billions of dollars into the industry over the years (see chart).

There are now more than 4,400 biotech firms in the world, the vast majority still privately owned. America, the birthplace of modern biotech, continues to tower over the field, accounting for more than half of all publicly-traded firms and almost $43 billion in revenues last year, including from such giants as Amgen and Genentech. America's success is reflected in growing investment: the industry there raised almost $17 billion from public and private markets in 2004, almost five times as much as in Europe.

Money is still a problem for European firms, especially in Germany, where many small biotechs flounder. In Britain, the tough times of the past few years have left management teams “bloodied, battled but unbowed” says William Powlett Smith, head of E&Y's British biotech practice, with companies streamlining operations and merging. But there are signs that the European public markets are becoming more receptive: several firms such as Switzerland's Arpida, were floated on European markets over the past year, as against none in 2003.

In Asia, the sector is dominated by Australia, which accounts for almost three-quarters of the region's $2 billion revenues. But some interesting companies are springing up in India, China, Singapore and further afield.

Biotech firms still face one familiar problem: the difficulties which early-stage firms have in finding backers. And a newer one: some blockbuster biotech products will face patent expiry and generic competition over the next couple of years, first in Europe and then probably in America too.

Nor is the biotech industry immune to the safety problems that have plagued big pharmaceutical firms. Biogen Idec and Elan this year have seen billions wiped off their market value with the withdrawal of Tysabri, their new multiple-sclerosis drug. But, unlike in years past, the affected firms did not drag the rest of the industry down with them. It seems that biotech investors are growing up as well.

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Face value

Europe's battered tiger

Jun 2nd 2005
From The Economist print edition

Marco Boglione and the Chinese threat to Italian manufacturing

CHINA has become the stuff of nightmares for many Italian businessmen, an oriental beast that grows even more threatening in the light of day. Yet for three decades from the early 1960s, Italy was Europe's own economic tiger. The country's success in manufacturing and exporting was based on a vast patchwork of family-owned, small and medium-sized firms, often located in regional clusters focused on traditional sectors such as textiles, clothing and footwear. Italian manufacturers flourished then. Today, they are wilting. Italy's industrial production has fallen in each of the past four years. It was lower at the end of 2004 than at the end of 2000. Plant utilisation in Italy's export sectors has slumped along with competitiveness. Italy is now buying what it used to sell.

As a result, many Italian businessmen are under intense pressure, and squealing. But not Marco Boglione, chairman of BasicNet, a Turin-based casual-clothing company. His firm has survived by embracing China while slashing its manufacturing presence in Italy—an example, simultaneously, both of what an Italian boss can do to address the current competitive challenges, and of why the prospects for Italy's economy are so grim nonetheless. BasicNet now obtains about two-thirds of its requirements from China. In 1994, when Mr Boglione purchased the firm—which was then called Maglificio Calzificio Torinese (MCT) and had gone bust, not least thanks to high manufacturing costs—it had no Chinese suppliers. Yet even with the cheap Chinese manufacturing it now enjoys, life is not easy for BasicNet. It made a profit last year, but in 2003 it lost €14m ($16m) on direct sales and licence revenues of €84m.

Such ups-and-downs in the clothing industry are old hat for Mr Boglione, who joined MCT in 1976 at the age of 20. Turin then had a huge clothing manufacturing industry—now long gone—and MCT had 600 workers on its payroll (albeit down from 1,600 in 1964). The firm had shifted from making socks and underwear to casual clothing at around the end of the 1960s. However it had continued to make clothing, including most notoriously its Jesus Jeans (“Who loves me follows me,” said provocative advertisements showing be-jeaned female backsides). Under Mr Boglione's prompting, MCT had expanded into sportswear at the end of the 1970s, sponsoring star-studded soccer teams such as Turin's Juventus and Amsterdam's Ajax.

Then, in 1985, Mr Boglione left MCT to set up a mail-order business that sold the jerseys of leading soccer clubs to fans willing to pay a hefty price to wear the colours of their favourite teams. The firm paid royalties to the clubs and at one time had licences for 17 of the 18 teams in Italy's top football league. Meanwhile, MCT was sliding into bankruptcy. In January 1994, Mr Boglione decided to buy the assets of his former employer.

His return to MCT's run-down 22,000 square-metre (237,000 square-feet) factory was inauspicious; Mr Boglione's father thought his son would never make a success of it. Mr Boglione turned part of the second floor, where almost 200 weaving machines still lie abandoned, into an apartment, installing a metal shed as his bedroom and a plastic greenhouse as a bathroom. This was an unusual way to live and work—sleeping there was spooky, he says—but that did not stop Mr Boglione dreaming up something new for the clothing business.

From the start at BasicNet, born as the internet began to take off, Mr Boglione created a virtual company, a paperless business in which as much as possible took place online. The firm makes nothing itself; it is simply a network of sourcing centres and territorial licensees for its brands, which as well as Jesus Jeans include Robe di Kappa and Superga. China was on Mr Boglione's radar right from the start. “When we started in 1994 our strategy was to look at emerging economies for sourcing and China was a clear option,” he says. Within five years it was providing 35% of BasicNet's requirements. Now barely 100 people work for BasicNet in Turin in MCT's old factory, which has been converted to offices. Their job is mostly product development and assembling collections. BasicNet's global marketing operations and the development of its licensee network also take place in Turin.

The company was floated in November 1999, allowing two large shareholders to sell out near the peak of the internet bubble. Investors were then happy to pay €3.90 per share. Mr Boglione kept his stake—he currently holds 41% of the company—but its shares now trade at just €0.48. But at least he can feel some relief from an increase in sales in 2004 and the fact that BasicNet reported profits for that year rather than losses.

Arrivederci Italian business?

A further illustration of the possibilities for those Italian firms willing to take a chance is that BasicNet is moving on from treating China merely as a cheap place to manufacture; increasingly, Mr Boglione views China as a market. BasicNet began selling to China two years ago and it now accounts for 4% of the company's sales. That bodes well for the firm. However its success overseas seems unlikely to have positive consequences for production in Italy. On the contrary, BasicNet's Chinese activities may move further upstream. Until now, Mr Boglione has used Chinese suppliers only for their low cost. But Chinese firms have been investing heavily in every phase of manufacturing, acquiring financial expertise and learning to deliver on time. Like any patriot, Mr Boglione says he would still like to buy produce made in Italy, but concedes that, on cost grounds alone, he cannot. However, unfolding a made-in-China winter jacket and fingering its lining and seams, he says that “cost is no longer the only factor. Chinese quality is as good as ours.” That is why China is great news for those, such as Mr Boglione, who make use of it—and why the many Italian businessmen who are not doing so regard it as such a terrifying threat.

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Paul Wolfowitz at the World Bank

A regime changes

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From The Economist print edition

Reuters

The World Bank's new president is famous for his commitment to "regime change". The Bank is committed to a peaceful version of the same thing

ON ITS way to the Mekong river, the Nam Theun tributary flows uninterrupted across the Nakai plateau in Laos, the poorest country in South-East Asia. Not for much longer. In March, the World Bank backed a proposal to dam it. Hydroelectric turbines will generate up to 1,070 MW of electricity, 95% of which will be exported to neighbouring Thailand.

This is the World Bank's natural habitat, where its compulsions and capabilities are both shown to full advantage. The project is not just an exercise in hydrology. The Bank's grants will help to resettle villagers, including Vietic-speaking hunter-gatherers, from the inundated plateau behind the dam and to compensate inhabitants of the dried-out riversides below it. As the Bank's International Advisory Group reported earlier this year, the displaced are experimenting with new ways to make a living, from an organic mulch plant to eel breeding. The project will set aside a nature reserve, where wildlife, from pangolin to reticulated python, will be defended by village gamekeepers, their salaries paid out of the dam's revenues.

But this is not, it is safe to say, the natural habitat of Paul Wolfowitz, who took office as the Bank's new president on June 1st. The plight of the reticulated python and the Vietic-speaking peoples are unlikely to have crossed his desk in the Pentagon, where he previously served as America's deputy secretary of defence. Mr Wolfowitz has instead spent most of his career cogitating about America's power in the world, representing it abroad and lobbying to enlarge it, first in congressional back offices, most recently at the intellectual forefront of George Bush's foreign policy. He knows little about finance; only a little more about development, although, as ambassador to Indonesia for three years, he has lived in a populous, poor country. Behind him, he leaves the ongoing nightmare of reconstructing Iraq, a project that is certainly behind schedule and over budget.

The Bank which Mr Wolfowitz now heads has as many sides as the Pentagon he has left. Speaking on May 31st he said he would be willing to listen and experiment, but it will take him some time to get to grips with a complex organisation. The Bank's most prominent aspect is the International Development Association (IDA), which gives grants ($1.7 billion last year) and soft loans (another $7.3 billion) to 81 of

the world's poorest countries. As important, but less widely understood, is the International Bank for Reconstruction and Development (IBRD), which lent about $11 billion last year. The IBRD has some claim to being a bank rather than a fund. Blessed with a AAA-credit rating, it can borrow cheaply on the capital markets, and lend, slightly less cheaply, to the aristocracy of the third world, such as China and Brazil.

The Bank also has third and fourth sides—two smaller agencies that take on some of the risk of private lending to poor countries—and a fifth that settles disputes between foreign lenders and sovereign borrowers. Dams in Laos notwithstanding, only 5% of the Bank's money went to the energy and mining sectors last year. Three times as much went to social services, such as health, while education received 8%. The Bank also performs a type of economic chiropractics, giving money to governments in need of an “adjustment” in their policies, fiscal or monetary.

Mr Wolfowitz may, in fact, discover much that is familiar to him at the Bank. It is first and foremost a formidable technocracy. But in its own bloodless idiom, the Bank now talks increasingly about politics, even if it does so in euphemisms such as “good governance”, “capacity building”, “voice” and “empowerment”. It is committed to understanding the political institutions of the countries in which it operates. Haltingly, hesitantly, it is also committed to changing them.

In June 2000, for example, the Bank lent $190m to help finance a 1,000km pipeline from the oilfields of landlocked Chad to the port of Kribi in Cameroon. But laying the pipe was the easy bit. Much harder is managing the revenues, which threaten to overvalue Chad's currency and underwrite endemic corruption.

The Bank's answer was two-fold. It insisted that the pipeline revenues be paid into an offshore escrow account. About 10% of the money would be held aside for future generations. The rest would flow to the government's poverty-fighting efforts under the close supervision of a new body, commonly known as the Collège. Staffed by parliamentarians, judges and representatives from human-rights groups, the Collège was, in effect, a new institution of state. It was soon debating whether to withhold money from the government. Clearly then, even when it is in the business of erecting dams and laying pipelines, the Bank is also often building states and reforming regimes.

Naïfs no more

That is a big change. Until 1996, politics was the variable that dared not speak its name at the Bank. Country directors, who head its branch offices in borrowing countries, came to their jobs as “self-described political neophytes”, according to a recent Bank publication that recounts their education in the ways of the world.

Their initial innocence was largely self-imposed. Basil Kavalsky, who served as the Bank's country director across eastern Europe, confesses that it was “an article of faith...that we did not take political considerations into account.” Actually, it was more than an article of faith. The Bank's articles of agreement, its founding charter, enjoin its officers to remain studiously apolitical.

Of course, the neophytes soon learned all about the political character of their host countries. But, notes Mr Kavalsky, they treated corruption as “a given, a part of the environment to be factored into the calculation. We did not treat it as a variable—something which we should make a concerted effort to address.”

That changed with James Wolfensohn, Mr Wolfowitz's predecessor. It was perhaps his most far-reaching innovation in a tumultuous ten-year reign. In May 1996, he visited Indonesia, where Mr Wolfowitz had been ambassador from 1986 to 1989. The brazen corruption of the country's ruling Suharto clan irked them both. Mr Wolfowitz broached the issue, albeit politely, as he prepared to leave his ambassadorial post in the country in 1989. Seven years later Mr Wolfensohn was more forthright. “Let's not mince words,” he said at the Bank's 1996 annual meeting in Washington, DC, “we need to deal with the cancer of corruption.”

The following year, the *World Development Report*, written by a team led by Ajay Chhibber, was the first publication in which the Bank properly addressed the topic. It was the beginning of a thorough re-examination of the role of the state and political institutions in development.

Mr Chhibber is now given to quoting Napoleon: “institutions alone fix the destinies of nations”. That dictum finds some support in the latest economic research on development. A number of economists

believe the policies they advocated in the 1980s and 1990s—stabilise prices, liberalise trade, privatise industries—matter less than the institutions that stand behind those policies.

Leading the chorus are Daron Acemoglu, Simon Johnson and James Robinson of the National Bureau of Economic Research. As they point out, for example, the prescription of stable finances and sound money did little to help in Argentina. The state found itself chronically prone to profligacy, for deep institutional reasons. It had to appease the country's unruly outlying provinces, which contribute little to the economy but dominate parliament. Likewise, they argue, Ghana's wildly overvalued exchange rate in its post-independence decades was not a monetary blunder. It was a political strategy designed to redistribute resources from the country's cocoa exporters, who received artificially low prices for their exports, to the import-buying city dwellers, on whose support the regime depended.

Measure for measure

Renaissance and regression

Changes in governance in Africa, 1996-2004

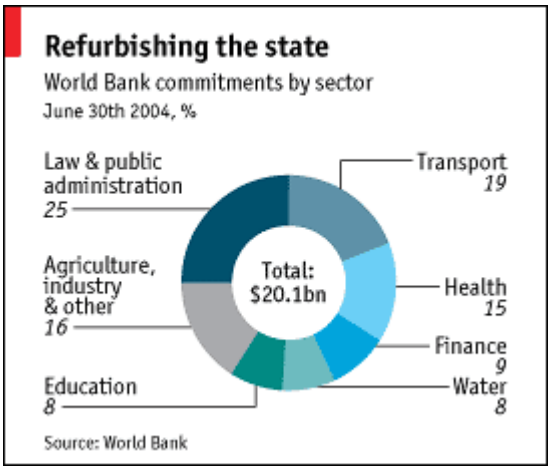
Governance category	Number of countries	Countries
Voice and accountability		
Significantly improved	5	Ghana, Gambia, Nigeria, Sierra Leone, Tanzania
Improved	16	
Worsened	22	
Significantly worsened	4	Central African Republic, Côte d'Ivoire, Eritrea, Zimbabwe
Government effectiveness		
Significantly improved	4	Botswana, South Africa, Tanzania, Congo
Improved	16	
Worsened	21	
Significantly worsened	6	Central African Republic, Côte d'Ivoire, Comoros, Sierra Leone, Chad, Zimbabwe
Control of corruption		
Significantly improved	3	Gabon, Tanzania, Congo
Improved	13	
Worsened	12	
Significantly worsened	5	Côte d'Ivoire, Guinea, Gambia, Namibia, Zimbabwe

Source: "Governance Matters IV", by D. Kaufmann, A. Kraay and M. Mastruzzi, World Bank

Testing such theories is fraught with difficulty. But the measurement of institutions has made some progress. Dani Kaufmann, at the World Bank, notes an explosion of indicators of good government, most based on business surveys or expert perceptions, that offer measures of accountability, bureaucratic competence, the rule of law, and so on. By sorting and sifting these numbers, he and his colleagues believe that they can derive workable measures of misrule. Precise rankings between countries are not possible, but broad comparisons are, and changes over time can be discerned. Over the past eight years, for example, many governments in Africa have defied the Afro-pessimists (see table), although more have regressed.

Mr Kaufmann believes he and his colleagues can demonstrate a strong causal link between his indices of sound government and prosperity. If the rule of law in Somalia, for example, were to match even that prevailing in Laos, Somalia's income would rise two- to three-fold in the long run, Mr Kaufmann estimates.

These are powerful arguments. But even if it is true that institutions fix a nation's destiny, can the Bank fix a nation's institutions? Is there a reliable “transmission mechanism” between the levers the Bank can pull and the results it cares about?



By training and temperament, Bank staff have tended to view government as a practical art. But their efforts to date give comfort to those of a more fatalistic cast of mind, who believe good government cannot be engineered, but must evolve.

In 2000, the Bank unveiled its strategy for reforming public institutions and strengthening governments. Between 2000 and 2004, lending to promote economic reforms fell by 14% a year, but lending to improve governance rose by 11%. In the 2004 fiscal year the Bank committed 25% of its lending to law and public administration (see chart). It had 220 staff dedicated to the cause, and more than 840 professionals affiliated with it.

For the most part, its direct efforts were confined to poorer countries, dependent on IDA for grants and soft loans. The richer developing countries, such as Brazil or India, where the state apparatus was formidable, were reluctant to cede ground to outsiders. In China, where Edwin Lim once served as chief of mission for the Bank, “the economic dialogue was always,” he admits, “within the Chinese ideological and political limits.”

A review of the Bank's efforts to prune the lush bureaucracies of African states concluded that civil-service reform remains elusive and intractable. Elsewhere, anti-corruption commissions proliferated, but achieved little—indeed they were often set up in the wake of some scandal as an alternative to doing anything.

Part of the difficulty, as Dani Rodrik of Harvard University points out, is that typical measures capture institutional outcomes, not institutional forms. The “rule of law”, for example, measures how secure an investor feels about his property. It tells us little about precisely what makes him feel that way. According to Michael Woolcock, of the Bank, and Lant Pritchett, of Harvard University, the development industry can agree on “objectives” (children should be taught, roads should be passable, the rule of law should prevail) and “adjectives” (government should be accountable, transparent and responsive). But that is about all. As a result, Mr Kavalsky notes, the Bank's prescriptions in this field often come “very close to a tautology”. What is required for growth? Good governance. And what counts as good governance? That which promotes growth.

That “P” word again

But the main difficulty was the obvious one: politics. When the Bank moved in on examples of bad governance, it too often forgot to ask, bad for whom? Consider, says Mr Chhibber, Turkey's banking system prior to that country's financial crisis in 2001. In 1998, the government was advised to set up an independent financial regulator, styled on those of Britain and Canada. Instead it created a regulator that was packed with political appointees. To the Bank's technocrats, it was obvious that the country had too many banks, many of them state-owned, and that they were not serving the economy at all well. But in Turkey at that time, state banks had a different purpose. They were the playthings of politicians, given to them as the spoils of electoral victory.

In such a situation, Mr Chhibber points out, all the Bank can do is bide its time. After the 2001 financial crisis, political resistance to an independent regulator broke down. Once established, the regulator closed more than 20 private banks, and cleaned up the system, at a cost of 33% of GNP. Mr Chhibber argues that earlier failures contributed to the eventual success. The work undertaken in 1998 allowed Turkey,

under a new economy minister, Kemal Dervis, himself an alumnus of the Bank, to take advantage of the opportunity for reform when it arose.

In a speech in 2000, Mr Wolfowitz reflected on the thawing of authoritarian regimes in South Korea, Taiwan and the Philippines—the last of them on his watch as assistant secretary of state for East Asia. In these regimes, he noted, America worked on institutional, rather than revolutionary, change. It once counted Ferdinand Marcos, the dictatorial president of the Philippines, as an ally. If it had written him off, it would have lost all influence over him, Mr Wolfowitz said. But America could not coddle Marcos indefinitely either.

Such dilemmas will almost certainly revisit Mr Wolfowitz in his new job. The Bank must continually choose whether to coddle bad governments, or to cut them off. If misrule matters so much for development, should it reserve its money for committed reformers, turning its back on the reform-shy? That would make its money go further; it might also encourage laggards to reform. David Dollar and Victoria Levin, two Bank economists, reckon that since 1995 the Bank's soft-loan arm, IDA, has become much choosier about its clients. Broadly speaking, money flows to countries based on two main criteria: how well run is it? And how poor?

IDA may be pickier than it once was, but the Bank as a whole is not quite as discriminating as this study suggests. Richer countries, even if badly run, can still unlock money from the IBRD, the Bank's commercial-loan arm. And disastrously run countries are never entirely shunned by IDA. Each gets a small allocation regardless of its performance, and some qualify for money from the Bank's £25m trust fund for failed states, which it calls “low-income countries under stress”.

Some think that, if it were to confine itself to the well-governed parts of the globe, the World Bank would scarcely warrant its title. But the Bank is learning that every unfit government is unfit in its own way. In some countries, citizens cannot hold policymakers to account (China); in others, policymakers cannot bend the bureaucracy to their will (Armenia). In some cases, the state is captured by venal interests—either wealth captures power (Russia under Yeltsin), or power captures wealth (Russia under Putin). In others, the state is so weak there is nothing worth capturing.

The Bank must pitch itself accordingly. If the state is honest, but weak, the Bank can try to train judges and equip civil servants. But there is no point investing in the machinery of a captured state. A project to strengthen the fiscal apparatus of Mobutu Sese Seko, the kleptocratic former ruler of Zaire, counts as the most misguided Bank project ever, in the opinion of Susan Rose-Ackerman, a corruption expert at Yale University.

If there is no will for reform on the part of government leaders, the Bank can try to go over their heads, stimulating demand for reforms in the public at large. Sometimes this works. When Thailand slipped in the Bank's ratings of good government, Mr Kaufmann recalls, the prime minister had to go on the radio to explain himself.

Truman's show

Some will argue, of course, that foreign aid has been political since its inception. The World Bank owes its existence to America's strategic commitment to rebuild post-war Europe. And many think the modern aid business and the cold war were twin-born at the moment of President Harry Truman's inaugural address in 1949. That speech is famous for Truman's vow to strengthen the freedom-loving nations of the world against the false philosophy of communism. But in it he also promised to share America's know-how and some of its resources with those parts of the world threatened by the “ancient enemies—hunger, misery and despair.”

Mr Wolfowitz, of all people, is not one to disavow Truman's commitment to strengthen freedom. But if the ends Truman sought were deeply political, the means were mostly technocratic. The Bank which Mr Wolfowitz now leads is in a different game. The ends it pursues are primarily technocratic—it wants to fight poverty, not a false philosophy. But the means it employs have to be canny, opportunistic and, yes, political.

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European banks

Love across the Alps

Jun 2nd 2005 | FRANKFURT
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At last, a big continental European bank merger is under serious consideration

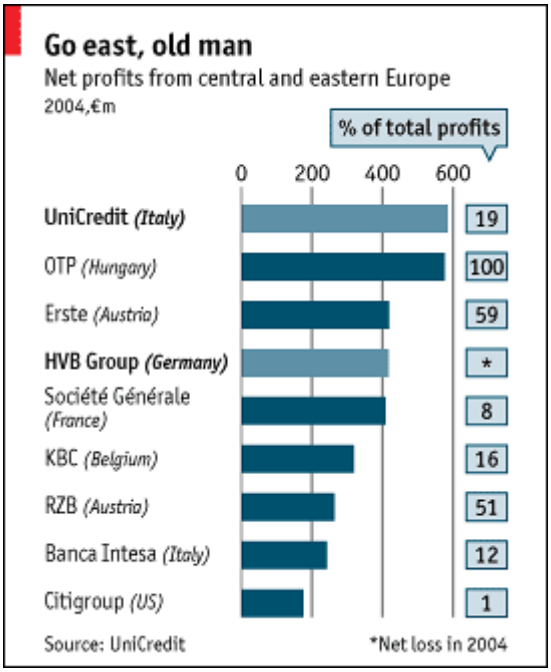
MAYBE it wasn't such a bad week for European integration after all. Just as voters in France and the Netherlands were rejecting the European Union's constitution, serious talks about continental Europe's first significant cross-border bank merger were getting under way. About time too, you might say, some 13 years after the supposed creation of the single European market in 1992.

Italy's largest bank, UniCredit, and Germany's second-largest, HVB Group, confirmed on May 30th that they were in talks about a “potential business combination”. Eager Europhiles may have to wait a while for a deal, because negotiations could drag on and may yet lead nowhere. Although Bank Austria, the subsidiary through which HVB operates in central Europe, is a jewel, HVB's German business—a big mortgage, corporate and retail bank—has very little sparkle. Granted, it does have 15% of the retail market in Bavaria, Germany's southernmost state, and a slice of the northern German market. But it does not make much money. Only four months ago, HVB reported yet more provisions on its troubled property portfolio. It insisted that they would be the last, but its credibility on this issue has worn thin.

Alessandro Profumo, UniCredit's chief executive, has a good chance of sealing a friendly takeover. Dieter Rampl, his counterpart at HVB, said in April that UniCredit would make a good partner. Yet there are plenty of awkward “soft” issues to be dealt with. Albrecht Schmidt, Mr Rampl's predecessor, now head of HVB's supervisory board, is believed to oppose a takeover that puts the Italians in charge. HVB's workers may try to secure a deal similar to that agreed when their own bank bought Bank Austria in 2000: this is now listed separately in Vienna, with 22.5% of its shares floating. And Bavarian politicians could make trouble ahead of the German federal election expected in September.

It is too soon to say whether many more cross-border deals are now in the offing. UniCredit and HVB are still just talking. Two smaller takeover attempts in Italy seem to be slipping away from the foreign bidders, Spain's Banco Bilbao Vizcaya Argentaria and the Netherlands'ABN Amro. And a study by A.T. Kearney, a consulting firm, suggests that domestic mergers are the only ones worth doing. Its analysis of last year's takeover of Abbey, a British bank, by Spain's Santander Central Hispano (SCH) concludes that it “does not create value”. The least bad cross-border deals, the firm's analysis suggests, would involve the French, putting BNP Paribas or Société Générale with Deutsche Bank, Germany's largest bank, or Crédit Agricole with Switzerland's UBS. But these would still destroy value. An all-British affair involving

Barclays and Lloyds TSB, though it would surely be forbidden on competition grounds, would be a winner.



Despite such scepticism, both UniCredit and HVB could gain from a deal. Mr Profumo has made a good fist of merging banks, cutting costs and raising profitability in Italy, but further consolidation at home is difficult. His bank's “New Europe” division, which continues to expand, contributes just under 20% to the group's net profit (see chart), a share that may rise with the recent joint acquisition, with Koc, a Turkish industrial group, of Yapi Kredi, Turkey's fourth-biggest bank. Mr Profumo himself is at a crossroads: some surmise that, if this merger is shelved, a career in politics will be his next step.

As for HVB, even if it plugs its property hole it still lacks a coherent strategy and brand: new leadership could bring new vitality. According to a recent study by Mercer Oliver Wyman, a consulting group, and Morgan Stanley, an investment bank, cross-border mergers can work if the buyer brings more sophisticated information-technology and risk management to the target. That has happened to some extent at Abbey since it was bought by SCH.

The clear plus-point of the German-Italian deal, however, is that Bank Austria and UniCredit's New Europe assets would make a good fit. Both are strong in Poland, Croatia and Bulgaria: together they have a quarter or more of the market in all three countries. Bank Austria is represented in 14 countries and is a market leader in two. UniCredit is a market leader in four countries. It has gaps in the Czech Republic and Hungary, which Bank Austria can fill. Only in Poland, where both UniCredit and HVB have strong and successful banks, is there likely to be a clash of styles: HVB's BPH has grown rapidly through cheap retail mortgage lending in foreign currency, mostly Swiss francs, a business that UniCredit's Bank Pekao considers too risky.

Central European growth may be the selling point of the merger, but in old, western European banking it is little more than a rounding error, says one consultant, rather dismissively. For HVB, central and eastern Europe has been vital because it has been virtually the only source of good news: it made a profit of €417m in 2004, when HVB in Germany only just broke even and the group as a whole made a loss. HVB has €24 billion of non-performing loans, against which it has made provisions of 57%. Its property restructuring unit has a further €15.4 billion of troubled loans. It calculates that 41% of this is covered by collateral, but the proportion can rise and fall with the property market. This uncertainty makes HVB a shot in the dark for any buyer, and must be reflected in the price. According to rumour, the price being considered is €22 a share, which values the group, including Bank Austria, at €16 billion, only some €4 billion above the implied market value of Bank Austria alone.

British and American banks, with market values of many times that, are surely interested in buying assets in Europe west and east. But perhaps not yet. Citigroup, J.P. Morgan Chase and Bank of America, the likeliest American contenders, could find themselves in a pricey auction once they started buying. So any purchase would have to be big, and the right piece of the jigsaw, says an investment banker. The right piece, says another, would be Deutsche Bank. Possible British buyers, such as HSBC and Royal

Bank of Scotland, are cagey, so they will probably wait until the spoils become more certain. If he can convince himself and others that his bank and HVB should join forces, Mr Profumo might just start something.

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Arthur Andersen

Not guilty after all

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Better late than never? Tell that to Arthur Andersen

Get article background

THE ruling was swift and unanimous. Few who had followed proceedings in the United States Supreme Court were surprised when, on May 31st, the justices overturned the 2002 conviction of Arthur Andersen. The auditing firm had been found guilty of witness tampering in connection with a purge of documents related to Enron, its most notorious client. There was an air of scepticism during last month's oral arguments.

The Supreme Court was vexed by the judge's instructions to the Texas jury in the 2002 trial. They were too broad, wrote Chief Justice William Rehnquist in the opinion, and could result in the criminalisation of innocent conduct. However, the justices stopped short of exonerating the former accounting giant. In theory, it should be retried under a stricter standard, but this is unlikely. It is pointless to go on hounding a firm that is but a shell of its former self, consisting of a couple of hundred people fighting lingering lawsuits.

Andersen's woes began with a seemingly innocuous reminder from Nancy Temple, an in-house lawyer, to comply with the firm's document-retention policy. That e-mail, insisted the government, amounted to obstruction because it was sent just as Andersen executives began to worry that an investigation by the Securities and Exchange Commission was imminent, and it set off the shredding of two tons of Enron-related documents in Andersen's Houston office. Andersen countered that it was merely urging compliance with a legal document-retention policy.

The Supreme Court said that the government should have been held to a higher standard of proof. Specifically, it needed to show a “consciousness of wrongdoing” and a connection between the order to shred documents and knowledge of a particular proceeding. The government tried to get away with doing neither. “It is striking how little culpability the instructions require,” wrote Mr Rehnquist in the opinion.

In two respects, the ruling seems to change little. The Sarbanes-Oxley act, passed in 2002, has superseded the statute under which Andersen was convicted. It tightened the guidelines so that auditors must now hold on to documents for seven years. Moreover, the reversal of Andersen's conviction will hardly breathe life into the shattered firm. Its clients fled long before the court meted out its superfluous sentence—a $500,000 fine and five years' probation. The verdict may be some help in its remaining lawsuits.

Corporate lawyers and bosses, though, are relieved. If the appeal had failed, they insist, a pall would have been cast over all document-retention policies. Lawyers say they would have been wary of advising clients to destroy much of anything. It was, after all, not the shredding that the government called a crime, but the mere request to shred. The opinion says that simply persuading someone to withhold testimony or documents from a government proceeding is not “inherently malign.”

Moreover, the ruling may force a more narrow reading of the new document-retention law under Sarbanes-Oxley. Maureen Mahoney, the lawyer who argued Andersen's case, says that the ruling clearly puts the onus on the government to tie the destruction of documents to knowledge of a federal investigation. “In order to hold someone criminally liable for obstructing justice,” says Ms Mahoney, “you can't just say that an official proceeding was probable.”

But the court's decision does not say that anything goes in thwarting a federal probe. It says merely that it is not wrong to ask employees to comply with “valid” document-shredding policies under “ordinary

circumstances.”

And though the ruling is a blow to the government, it is hardly likely to be cowed in its pursuit of white-collar criminals. Nailing defendants for obstruction of justice rather than an underlying crime is a favourite tool of federal prosecutors. In the future, says Jonathan Redgrave of Jones Day, a law firm, they will simply ask for tighter jury instructions. If jurors smell wrongdoing, he says, “a narrowly drawn jury instruction won't trip them up.”

Still, the ruling may help a few white-collar defendants, such as David Duncan, an Andersen partner and the only individual being held to account for the shredding. He pleaded guilty to obstructing justice in 2002 but has yet to be sentenced, because he has been co-operating with the prosecution in the case against Kenneth Lay and Jeffrey Skilling, top executives at Enron. And the Supreme Court's ruling may give legal ammunition to Frank Quattrone, an investment banker who is appealing against his conviction on three counts of obstruction of justice in an unrelated case. In the light of the ruling, appeal court judges may view Mr Quattrone's e-mail request to staff to “clean up those files”, knowing that a grand jury had just opened an investigation, more as the nagging of a fastidious boss than as the start of a criminal conspiracy.

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The Securities and Exchange Commission

Curtain call

Jun 2nd 2005 | NEW YORK
From The Economist print edition

The chairman of the SEC bows out

Get article background

IT HAS been, in many ways, a thankless job. When William Donaldson was appointed as the head of America's Securities and Exchange Commission (SEC) by George Bush in 2003, it was in the wake of enormous accounting scandals at Enron, WorldCom and others. His task was to restore investor confidence battered by news of rampant corporate malfeasance even as new scams—widespread trading abuses in the mutual-fund industry, dodgy dealings in insurance—were coming to light. On June 1st, after a tumultuous time in the job, Mr Donaldson announced his retirement from the agency.

Under Mr Donaldson, the SEC grew enormously in size in terms of budget, staff and reach. Indeed, Mr Donaldson is likely to go down as one of the most activist chairmen in the agency's history. Much of this was dictated by external events. The SEC, blamed by many for being asleep at the wheel during the Enron and other scandals, was also seen as a critical part of the cure. The SEC was charged with much of the rule-making and work of implementing the Sarbanes-Oxley act that was rushed through Congress in 2002 in response to the scandals. It was given expanded power to root out financial fraud, and was expected to do so.

Besides this inheritance, Mr Donaldson was faced with new scandals in the insurance and mutual-fund industries and involving market makers at the New York Stock Exchange (NYSE). In any case, sitting still was hardly an option once New York's energetic attorney-general, Eliot Spitzer, embarrassed the agency by being faster to tackle shady dealings in the mutual-fund industry and conflicts of interest involving Wall Street research.

Although a Republican from the elite ranks of the business establishment—Mr Donaldson was a founder of Donaldson, Lufkin and Jenrette, an investment bank since bought by Credit Suisse, and is a former chairman of the NYSE—he drew the ire of the business community for his aggressive regulatory stance. In a handful of prominent and highly contentious decisions—including support for hedge-fund regulation, various mutual-fund reforms and, most recently, reforms of trading rules at the NYSE and NASDAQ—Mr Donaldson sided with the two Democrats on the five-person commission against his two fellow Republicans. He did the same in supporting the use of heavy corporate fines for wrongdoing, rather than penalties for individual wrongdoers. Business groups, incensed by what they see as regulatory overreach, have in recent months stepped up their lobbying for a change of course. The US Chamber of Commerce has gone further: it is suing the SEC over the mutual-fund reforms.

Whether the SEC will change direction once Mr Donaldson has retired is an open question. Much depends on whether his successor follows the less interventionist line favoured by business lobbies and the two Republicans who are staying. On June 2nd, Mr Bush nominated Christopher Cox, a Republican congressman from California, as Mr Donaldson's replacement. The retirement this summer of Harvey Goldschmid, one of the Democratic commissioners, means that there will be another hole to fill. By convention the slot must go to a non-Republican—but, says John Coffee of Columbia University law school, not necessarily one to the liking of Senate Democrats.

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Exchange rates

A vote of low confidence

Jun 2nd 2005
From The Economist print edition

The euro is losing its own referendum

Get article background

CURRENCY markets hold daily referendums on economies, and lately traders have been voting against the euro area. At the start of the year, the single currency was worth over $1.35. It was the dollar that was losing support, as swing voters fretted about America's current-account deficit. On June 1st, however, the euro dipped below $1.22, its lowest since September.

Growth in the euro area is weak and business confidence is ebbing. Despite this, the European Central Bank (ECB) chose not to alter interest rates on June 2nd, for the 24th consecutive month. But the proximate cause of the euro's unpopularity is those other referendums—political not financial, in France and in the Netherlands—on the European Union's constitution. As opposition to the constitution hardened before the polls, the currency softened. On the day after the French referendum on May 29th, the euro lost over a cent.

How tightly bound are the fates of the euro and the EU? The “currency without a country” as economists at Credit Suisse First Boston (CSFB) call it, “thrives on the common interests” of its members. But curiously, the euro might eventually gain from the recent turmoil.

The weightiest matter of common interest ever likely to face the euro zone is whether a profligate member could rely on its fellows to bail it out. The ECB is barred by treaty from doing so, but the markets implicitly assume it would. The spreads between member governments' bond yields are accordingly narrow. The no votes, CSFB reckons, may force a rethink: there will be less fiscal co-ordination, and the spreads between the bonds of Germany, with debts of 66% of GDP, and Italy, with 106%, should widen.

Quite right, too. Governments are more likely to overborrow if they and the markets assume they will be spared the consequences. If the markets deter them from ever testing that assumption, the euro will be on a sounder footing. You can have too much solidarity.

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About sponsorship

Textile-trade politics

A knotty problem

Jun 2nd 2005 | HONG KONG AND WASHINGTON, DC
From The Economist print edition

Unpicking the tangle over Chinese textile exports

AP

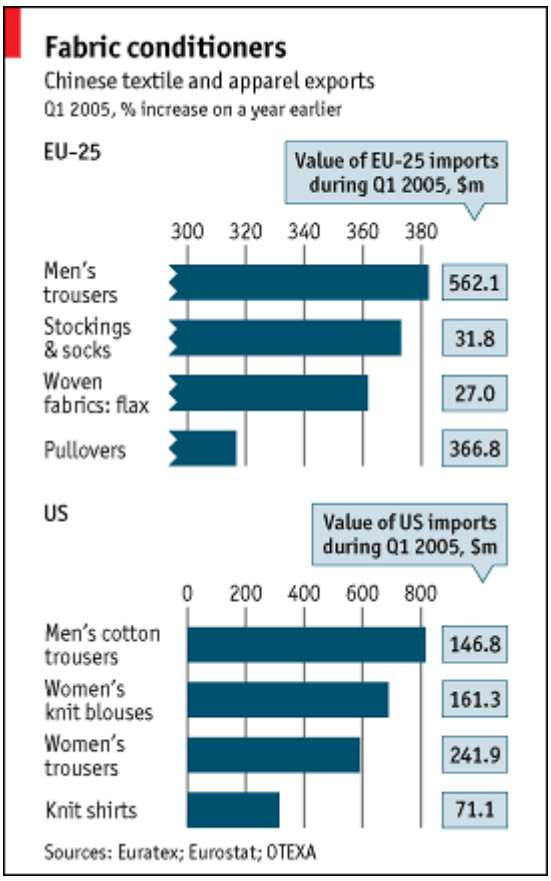
Trade with strings attached

LIKE a badly stitched dress, global textile trade is fraying at the edges. Five months after the death of the quota regime that had for decades governed and distorted the world's textile industry, those dastardly quotas are making a comeback, at least as far as China is concerned. The result is rising tempers and name-calling on all sides.

In recent weeks America has slapped “safeguard quotas”, which limit the rise in imports to 7.5%, on seven categories of Chinese textiles, including trousers and shirts. The European Union plans similar restrictions on T-shirts and flax yarn. Furious at what it regards as “unreasonable” protectionism that “lacks legal grounding”, China announced on May 30th that it was immediately scrapping export tariffs it had introduced earlier this year on 81 textile products to slow the surge in exports. Only ten days earlier the Chinese had said they would increase these taxes on 74 products, by up to 400% on some of them.

The re-emergence of quotas should surprise no one. The rules of the agreement surrounding China's accession to the World Trade Organisation (WTO) specifically allow such “safeguards” against Chinese products. (Normally, WTO rules forbid the variation of tariffs or other restrictions against one country alone.) Until December 2013, safeguards can be applied on any product if importing countries can show that the Chinese goods are causing “material injury” to domestic producers. Special measures, with less strict criteria, apply to textiles. Safeguards can be imposed almost automatically whenever imports create or threaten to create “market disruption”. There are limits: Chinese exports must be allowed to rise by 7.5% a year; the controls must last only one year, although they can be renewed; and the safeguards must go by the end of 2008.

Without these special terms, America's Congress might well have refused to agree to China's accession to the WTO. And given the political clout of textile lobbies, it is lamentable, but not surprising, that America has resorted to safeguards so soon. Many textile groups were lobbying for their imposition even before the quota regime was gone. Sharp rises in Chinese exports in 2005, albeit often from a tiny base, gave the protectionists the scant evidence the rules require. Overall Chinese textile exports to America were 62% greater in the first three months of 2005 than a year earlier. In the categories where safeguards are being imposed, the increases were far higher (see chart).



The reason to worry, however, is that the textiles spat is part of a broader, more dangerous, rise in trade tension with China. In the European Union, the pressure for textile safeguards reflects growing fears about globalisation in general and China in particular. In America, the Bush administration's decision to impose safeguards was taken both to placate a rising chorus of anti-Chinese fervour in Congress and to drum up legislative support for CAFTA, the regional free-trade agreement with Central America.

America's lawmakers are furious about what they see as China's unfair trade methods. The litany of complaints run from China's exchange rate to outrage at the Chinese authorities' inability (or unwillingness) to crack down on counterfeit goods. By sounding tough and imposing safeguards where the rules allow, the Bush administration hopes to stave off more damaging anti-Chinese action in Congress.

More pressing, as far as the White House is concerned, is the scramble for CAFTA votes. Mr Bush has declared the passage of CAFTA to be his top legislative trade priority this year. The president would like Congress to agree to the trade deal by this summer, but he lacks the necessary votes. Virtually all Democrats are opposed; so are many Republicans, particularly those beholden to the powerful sugar lobby. The safeguards on Chinese textiles are part of a strategy to win votes from textile states. Although textile politicians have been staunchly against trade agreements, the administration points out that CAFTA would help stem the surge of Chinese textiles, by offering duty-free access for Central American producers, who in turn buy American fabric.

Domestic politics also lies behind the hardening of Beijing's mood. The prospect of rapid growth in the labour-intensive textile sector was one of the most attractive aspects of WTO membership for China. Not surprisingly, China's textile industry is furious about the safeguards. This week's decision to scrap voluntary export tariffs was simultaneously a bone to the domestic industry, which would otherwise be hit both by export tariffs and safeguard quotas, and a sign of China's willingness to escalate the textile quarrel. And that is the real worry. With all sides focused on domestic politics and seemingly willing to raise the stakes, a few textile safeguards could be only the beginning of a much nastier trade fight.

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Economics focus

Down but not out

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Can bond yields fall further?

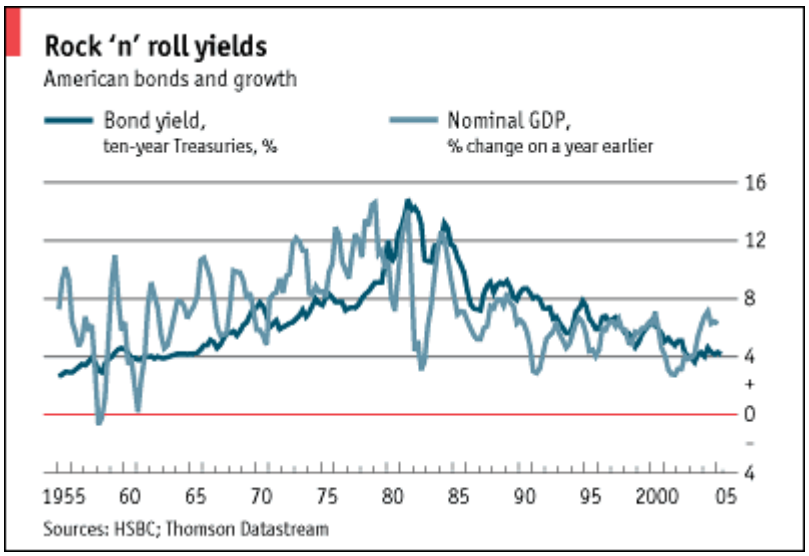
THINK the unthinkable: America's long-term bond yields may be heading down, not up. On May 31st, the yield on ten-year Treasuries dipped below 4% for the first time since early February. There are special circumstances, not least the fact that some investors are deserting Europe in this week of the *non* and the *nee*. But the debate over bond yields, unusually vociferous since February, when Alan Greenspan, chairman of the Federal Reserve, queried the refusal of long yields to rise when he pushed up short rates, has just increased a decibel or two. And the voices on the side of falling yields are getting louder.

At issue are two apparently strange phenomena. The first is the general level of bond yields. These are already low, by recent standards—in America, far less than the rate of economic growth that many think they should roughly reflect. The second is the yield curve, the gap between yields on long- and short-dated paper. The curve is flattening fast in America: less than half a percentage point separates the yield on ten-year Treasuries from that on two-years, down from more than two points a year ago. It is flat in Britain and Australia, and inverted in New Zealand.

Bond yields and the structure of interest rates matter both for what they do to economic performance and for what they tell us about it. It seems a shame, then, that their message is not unambiguous. Are rates low and curves flat because inflation has broadly been tamed? Is it because economic activity is expected to slump? Or has the link between growth and inflation been changed in some more or less permanent fashion, so that faster growth can take place with slower inflation than in the past?

Take the overall level of interest rates first. In a new paper*, Stephen King, chief economist at HSBC, a global bank, expresses his puzzlement at the failure of most economists to predict yields with anything near accuracy. Swayed by the concepts of “neutral” or “equilibrium” interest rates—sufficient to achieve price stability in the first instance and to balance savings and investment in the second—many have assumed that bond yields should approximate nominal GDP growth rates over time. They have exaggerated American bond yields for the past five years and got them wrong in Britain, too.

As the chart shows, however, the relationship between bond yields and GDP growth has been far from stable. In the 1950s and early 1960s, a time of relatively low inflation and robust economic activity, yields were well below nominal GDP growth rates. Through the 1970s, unexpected inflation pushed bondholders' real returns into the red. And from 1980, burnt by that experience, investors demanded a hefty premium for holding bonds. In the past two years, yields have fallen below GDP growth. Could we be moving back to that much earlier pattern?



Mr King thinks we are, even though the world looks very different now. He predicts that the yield on ten-year Treasuries will fall to 3.5% in 2006, and he is not alone. So does Stephen Roach, chief economist of Morgan Stanley, an investment bank, and until now a deep-dyed bond bear. But why, when America's economic growth still looks strong, its fiscal deficit supposes continued high borrowing, its trade deficit implies an eventual weakening of the dollar, and high oil prices suggest inflationary pressure—all of which normally push up bond yields? Globalisation, demography, cowed corporate executives and god-like central bankers all offer possible reasons why this time is different.

A lack of interest

Globalisation has been the most tramped over. Greater mobility of capital and labour, plus the new prominence of low-cost India and China in world trade, has dampened inflation. To support this new trading order, Asian central banks are content, for the moment, to buy dollar bonds with their savings. And interest rates in one country constrain those elsewhere more than before. Investors in Japan, for example—where yields on the ten-year government bond were this week the lowest since February 2004—take refuge in American assets, thus boosting their price.

The world's ageing workforce is another support for bonds. As baby boomers retire, they tend to switch from securities that eventually produce capital growth (most equities) into those that provide reliable income now (bonds). Stricter rules for matching assets and liabilities are pushing pension funds and life insurers in that direction, too. Company bosses bent on handing cash back to shareholders through share buy-backs and increased dividends imply that the corporate sector cannot supply growth and capital appreciation: this favours investment in assets other than most equities—including bonds.

The god-like central bankers have shaken off overt political control and are seen as invincible inflation-fighters. But this can have perverse side-effects. As the Fed puts up short rates, investors race out and buy more long-term bonds, safe in the knowledge that the dragon will be slain. For all the tightening of policy, monetary conditions are looser than a year ago.

Mr King reckons that a number of these changes are more or less permanent, and that interest rates around the world are likely to remain low for a long while. Will that be with or without economic growth? Is the flattening yield curve performing its traditional function of signalling an economic downturn or just indicating that inflation is no longer a threat?

Recent research on bond yields is bridging the old divide between financial economists and macroeconomists, bringing the latter's economic variables into the former's yield-curve models. A new study† by three American-based economists finds that while the yield curve was the better predictor of America's recession in the 1990s, over time lagged short rates (which are inversely correlated with GDP growth) are more reliable. Both indicators are pointing the same, worrying way now.

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* "From Bondage to the Promised Land". May 2005.

† “What Does the Yield Curve tell us about GDP Growth?”, by Andrew Ang, Monika Piazzesi and Min Wei. *Journal of Econometrics*, forthcoming.

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The evolution of intelligence

Natural genius?

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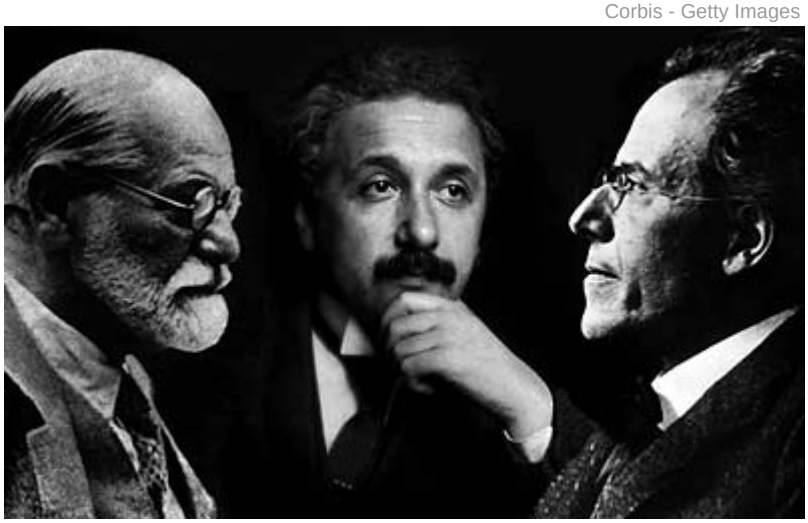

The high intelligence of Ashkenazi Jews may be a result of their persecuted past

THE idea that some ethnic groups may, on average, be more intelligent than others is one of those hypotheses that dare not speak its name. But Gregory Cochran, a noted scientific iconoclast, is prepared to say it anyway. He is that rare bird, a scientist who works independently of any institution. He helped popularise the idea that some diseases not previously thought to have a bacterial cause were actually infections, which ruffled many scientific feathers when it was first suggested. And more controversially still, he has suggested that homosexuality is caused by an infection.

Even he, however, might tremble at the thought of what he is about to do. Together with Jason Hardy and Henry Harpending, of the University of Utah, he is publishing, in a forthcoming edition of the *Journal of Biosocial Science*, a paper which not only suggests that one group of humanity is more intelligent than the others, but explains the process that has brought this about. The group in question are Ashkenazi Jews. The process is natural selection.

History before science

Ashkenazim generally do well in IQ tests, scoring 12-15 points above the mean value of 100, and have contributed disproportionately to the intellectual and cultural life of the West, as the careers of Freud, Einstein and Mahler, pictured above, affirm. They also suffer more often than most people from a number of nasty genetic diseases, such as Tay-Sachs and breast cancer. These facts, however, have previously been thought unrelated. The former has been put down to social effects, such as a strong tradition of valuing education. The latter was seen as a consequence of genetic isolation. Even now, Ashkenazim tend to marry among themselves. In the past they did so almost exclusively.

Dr Cochran, however, suspects that the intelligence and the diseases are intimately linked. His argument is that the unusual history of the Ashkenazim has subjected them to unique evolutionary pressures that have resulted in this paradoxical state of affairs.

Ashkenazi history begins with the Jewish rebellion against Roman rule in the first century AD. When this was crushed, Jewish refugees fled in all directions. The descendants of those who fled to Europe became known as Ashkenazim.

In the Middle Ages, European Jews were subjected to legal discrimination, one effect of which was to drive them into money-related professions such as banking and tax farming which were often disdained by, or forbidden to, Christians. This, along with the low level of intermarriage with their gentile neighbours (which modern genetic analysis confirms was the case), is Dr Cochran's starting point.

He argues that the professions occupied by European Jews were all ones that put a premium on intelligence. Of course, it is hard to prove that this intelligence premium existed in the Middle Ages, but it is certainly true that it exists in the modern versions of those occupations. Several studies have shown that intelligence, as measured by IQ tests, is highly correlated with income in jobs such as banking.

What can, however, be shown from the historical records is that European Jews at the top of their professions in the Middle Ages raised more children to adulthood than those at the bottom. Of course, that was true of successful gentiles as well. But in the Middle Ages, success in Christian society tended to be violently aristocratic (warfare and land), rather than peacefully meritocratic (banking and trade).

Put these two things together—a correlation of intelligence and success, and a correlation of success and fecundity—and you have circumstances that favour the spread of genes that enhance intelligence. The questions are, do such genes exist, and what are they if they do? Dr Cochran thinks they do exist, and that they are exactly the genes that cause the inherited diseases which afflict Ashkenazi society.

That small, reproductively isolated groups of people are susceptible to genetic disease is well known. Constant mating with even distant relatives reduces genetic diversity, and some disease genes will thus, randomly, become more common. But the very randomness of this process means there should be no discernible pattern about which disease genes increase in frequency. In the case of Ashkenazim, Dr Cochran argues, this is not the case. Most of the dozen or so disease genes that are common in them belong to one of two types: they are involved either in the storage in nerve cells of special fats called sphingolipids, which form part of the insulating outer sheaths that allow nerve cells to transmit electrical signals, or in DNA repair. The former genes cause neurological diseases, such as Tay-Sachs, Gaucher's and Niemann-Pick. The latter cause cancer.

That does not look random. And what is even less random is that in several cases the genes for particular diseases come in different varieties, each the result of an independent original mutation. This really does suggest the mutated genes are being preserved by natural selection. But it does not answer the question of how evolution can favour genetic diseases. However, in certain circumstances, evolution can.

West Africans, and people of West African descent, are susceptible to a disease called sickle-cell anaemia that is virtually unknown elsewhere. The anaemia develops in those whose red blood cells contain a particular type of haemoglobin, the protein that carries oxygen. But the disease occurs only in those who have two copies of the gene for the disease-causing haemoglobin (one copy from each parent). Those who have only one copy have no symptoms. They are, however, protected against malaria, one of the biggest killers in that part of the world. Thus, the theory goes, the pressure to keep the sickle-cell gene in the population because of its malaria-protective effects balances the pressure to drive it out because of its anaemia-causing effects. It therefore persists without becoming ubiquitous.

Dr Cochran argues that something similar happened to the Ashkenazim. Genes that promote intelligence in an individual when present as a single copy create disease when present as a double copy. His thesis is not as strong as the sickle-cell/malaria theory, because he has not proved that any of his disease genes do actually affect intelligence. But the area of operation of some of them suggests that they might.

The sphingolipid-storage diseases, Tay-Sachs, Gaucher's and Niemann-Pick, all involve extra growth and branching of the protuberances that connect nerve cells together. Too much of this (as caused in those with double copies) is clearly pathological. But it may be that those with single copies experience a more limited, but still enhanced, protuberance growth. That would yield better linkage between brain cells, and might thus lead to increased intelligence. Indeed, in the case of Gaucher's disease, the only one of the three in which people routinely live to adulthood, there is evidence that those with full symptoms are more intelligent than the average. An Israeli clinic devoted to treating people with Gaucher's has vastly more engineers, scientists, accountants and lawyers on its books than would be expected by chance.

Why a failure of the DNA-repair system should boost intelligence is unclear—and is, perhaps, the weakest part of the thesis, although evidence is emerging that one of the genes in question is involved in regulating the early growth of the brain. But the thesis also has a strong point: it makes a clear and testable prediction. This is that people with a single copy of the gene for Tay-Sachs, or that for Gaucher's, or that for Niemann-Pick should be more intelligent than average. Dr Cochran and his

colleagues predict they will be so by about five IQ points. If that turns out to be the case, it will strengthen the idea that, albeit unwillingly, Ashkenazi Jews have been part of an accidental experiment in eugenics. It has brought them some advantages. But, like the deliberate eugenics experiments of the 20th century, it has also exacted a terrible price.

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About sponsorship

Trust

Paying through the nose

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A person's level of trust can be changed with a chemical spray

SUSPICION and trust are two sides of the same coin. Over the course of evolution, humans and other animals have walked a line between the need for self-preservation and the benefits and delights of social co-operation. When a swarthy man beckons you into a dimly lit alley, you would do well to walk briskly away, but in reality you might be losing an opportunity to discover a delightful but out-of-the-way little restaurant.

A paper in this week's *Nature*, by Michael Kosfeld and Markus Heinrichs of the University of Zurich and their colleagues, explores the biological underpinnings of trust in such interactions. The researchers found that trust is surprisingly mechanistic: sniffing a spray containing a hormone called oxytocin increases a person's level of trust in others.

Oxytocin, a hormone produced by part of the brain called the hypothalamus, plays many roles. It stimulates contractions during childbirth and, once a child is born, helps to release milk when its mother feeds it. In some species, notably voles, it has been shown to regulate behaviours such as pair bonding, maternal care and the ease with which an animal will approach a stranger. Dr Kosfeld and Dr Heinrichs therefore had good reason to suspect that it plays a role in trust. They also knew from the work of others that hormones consisting of protein fragments known as peptides can cross into the brain if administered as a nasal spray. Oxytocin is one such peptide.

To probe oxytocin's role in promoting trust between people, the researchers invented a game. This game involved an “investor” and an anonymous “trustee” in whom money, in the form of “monetary units” worth 40 Swiss centimes (32 cents) was invested. Investor and trustee never met, and were allowed to interact only once. In addition to being paid for their time, participants were able to cash their monetary units in at the end of the game, in order to get the proper economic juices flowing. Each investor received 12 units. He could choose to keep all of them, or to give four, eight or all 12 of them to the trustee—which would result in their value being tripled. The trustee then chose whether to reward or abuse the investor's trust by sharing a portion of the proceeds with him.

All the investors and all the trustees had something sprayed up their noses before the experiment started. In some cases, though, there was no oxytocin in this spray. Of the investors who were sprayed with oxytocin, 45% invested the maximum of 12 units, while only 21% of those who received the control spray did so. On average, the oxytocin-sprayed group transferred 17% more money to their trustees than the controls. Oxytocin, therefore, seems to promote trust.

The proof that it is trust that is being promoted, rather than a general bonhomie towards others, or a reduced aversion to risk, comes in two parts. The first is the response of the trustees. These people did not, as some might expect, simply take the money and run. The investors usually got something back, albeit less than half of the trebled amount. But the sum returned did not depend on whether there was oxytocin in the spray a trustee had sniffed—as it might have been expected to if oxytocin promoted generally sociable behaviour, rather than trust specifically.

The second piece of proof that oxytocin is “trust-specific” came when the investors were told that a computer rather than a human trustee would be on the other end of the transaction, and that the amount returned would be decided at random. In this set-up, the oxytocin-sprayed group and the control group invested equal amounts. The researchers thus concluded that oxytocin was not simply lowering a person's risk aversion.

Besides helping to unravel the biological basis of an important emotion, Dr Kosfeld and Dr Heinrichs also

raise questions about some of the fundamentals of economics. Studies like these are beginning to shed light on the extent to which humans actually resemble *Homo economicus*, the proverbial rational economic agent. This particular case raises the possibility that those with different hereditary propensities to produce oxytocin, or different sensitivities towards it, might reach different conclusions when presented with similar economic decisions.

While acknowledging that these results could be put to nefarious use to “induce trusting behaviours that selfish actors subsequently exploit”, the authors hope their findings will instead be used to treat mental disorders such as extreme social phobia. Nevertheless, untrusting readers might beware of strange odours or mysterious vapours in the boardroom.

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Air safety

Grassed up

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A new way of stopping "bird strikes" on aeroplanes

AIRCRAFT are not the only things that fly around airports. Birds love them, too, because they often have large expanses of grass that provide food. But birds and aircraft do not mix. If a large bird, such as a goose, or a flock of small ones, such as starlings, get sucked into an aircraft engine, the result is not merely terminal for the birds, it can be pretty bad for the engine as well.

Such "bird-strike" damage is reckoned to cost several billion dollars a year in repairs and delays. But the obvious answer—scare the birds away—is not as easy as it sounds. Birds are cussed creatures, and even if scared off briefly by loud noises or threatening objects, return quickly to the place they came from if it has been providing them with food. And the second-most obvious answer, pave over the grass at hundreds of airports, is even more expensive than "bird-strike" damage. So Chris Pennell, of AgResearch, a government-owned research firm in New Zealand, is trying to provide a third way. He proposes to make the grass itself unpalatable.

Ironically, when Dr Pennell started the research that led him in this direction he was trying to do the opposite. Many species of grass form symbioses with fungi. The grass provides the fungus with food, and the fungus provides the grass with protection, in the form of poisonous chemicals that discourage herbivores. In New Zealand, the herbivores of interest to most people are sheep, so Dr Pennell was trying to eliminate these symbioses in the sorts of grass that sheep like eating. Then, one day, a plane he was travelling on was hit by a bird and he started pondering the idea that by increasing the toxicity of grass, rather than reducing it, it might be possible to persuade birds to go elsewhere.

Despite their appearance of monotonous uniformity, grasses come in surprising variety, and so do their symbiotic fungi. Matching the best grass to the best fungus was no easy task. In nature, fungus and grass travel together through the generations. Adult grass plants cannot form new symbioses. Instead, Dr Pennell had to inoculate embryonic grasses with promising fungal strains and hope that the two would get on together. He then had to grow enough adult plants to see just how unacceptable they were.

He now has two symbiotic cultivars that seem to do the business. One of these is cold-tolerant and grows fastest in the winter, the other is heat-tolerant and grows best in the summer. Canada geese—large, grass-eating birds that cause a lot of problems at airports—learn from a single exposure that these grasses are nasty, and will not return to them. Grass-eating insects get the message, too, so insectivorous birds such as starlings have no reason to hang around the new grasses. At least, that is the result of small-scale trials. Dr Pennell has now made an arrangement with the airport in Christchurch, New Zealand, to see if it works in the real world. If it does, there will be some hungrier, but longer-lived birds around, and passengers will be less likely to be delayed by avian purée in the engines.

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Power lines and cancer

Not so shocking

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Another look at the alleged link between power lines and cancer

SINCE the late 1970s, there has been lively debate about the possible connection between overhead power lines and childhood cancer. More specifically, researchers have been interested in the link, if any, between the extremely low frequency magnetic fields generated by these lines and childhood leukaemia. Studies on people have left more questions than answers, and laboratory experiments have failed to pin down a plausible mechanism whereby weak magnetic fields could trigger the disease. In this context, a paper in this week's issue of the *British Medical Journal* may well spark alarm. But it shouldn't.

Gerald Draper and his colleagues at the University of Oxford, and John Swanson of National Grid Transco, a power-transmission company, have looked at the distribution of childhood cancer along the power lines of the national electricity grid in England and Wales. The group analysed more than 29,000 cases of children with cancer against a comparable group without the disease. They found that children whose homes when they were born were within 200 metres of high-voltage lines appeared to have a 70% higher risk of leukaemia—but not other cancers—than those who lived more than 600 metres from the lines. If living near power lines does increase the risk of cancer, the researchers reckon their result would account for about five of the more than 400 cases of childhood leukaemia that occur in England and Wales each year.

Even that small number is a big if. Other studies that have shown a correlation between childhood leukaemia and power lines have done so only at smaller distances from the lines than Dr Draper's group. Indeed, the researchers reckon the magnetic fields at the distances they considered are less than the average fields in homes—and fields of this level have been shown to have no effect. “We have no satisfactory explanation for our results in terms of causation by magnetic fields, and the findings are not supported by convincing laboratory data or any accepted biological mechanism”, they damply conclude.

Correlations are tricky things. Childhood leukaemia probably involves damage to DNA before birth. But that damage can be caused in many ways—infection, chemicals and ionising radiation, for example. Despite Dr Draper's study, current evidence does not prove that living by high-voltage lines should be added to this list.

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About sponsorship

The governor of California

Pecs to politics

Jun 2nd 2005 | LOS ANGELES
From The Economist print edition

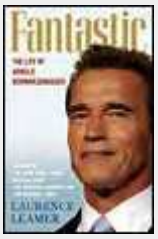
Eyevine

Is there more to Arnold Schwarzenegger than a sharp jaw and plenty of ambition? A new biography seeks to find the man behind the muscles

ARNOLD SCHWARZENEGGER has collected plenty of titles in his career: Mr Olympia, Mr World, Mr Universe, to name but a few. His latest, to astonishment everywhere except Hollywood, is governor of the state of California, an honour that was awarded 20 months ago in a special election that recalled Gray Davis, a professional Democrat politician, and replaced him with the Austrian-born movie star best known as the Terminator. Hence the title of Laurence Leamer's biography: fantastic is not just Mr Schwarzenegger's favourite word, it also sums up his life.

But will it remain fantastic? At the moment Mr Schwarzenegger seems strangely intent on squandering his popularity with California's voters. He threatens the pensions of nurses, teachers, policemen and firemen, decrying their unions as special interests, while he raises millions from special-interest business groups. Why he should choose to jeopardise his reputation as a Republican-lite centrist, who remains both pro-choice and socially liberal, is a question that puzzles many.

Fantastic: The Life of Arnold Schwarzen-egger
By Laurence Leamer



St Martin's Press; 320 pages; $24.95. Sidgwick & Jackson; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Leamer, a noted chronicler of the Kennedy clan (which includes Maria Shriver, aka Mrs Schwarzenegger), has done his homework. He has poured over *Muscle Power* and the other magazines that promise insecure young men they too can look like Arnold if only they take the supplements advertised inside. He has interviewed dozens of Mr Schwarzenegger's friends, foes and acquaintances. He has also endured the movies that at one time made Mr Schwarzenegger Hollywood's best-paid star.

To his credit, Mr Leamer does not dodge the issues that Mr Schwarzenegger's PR people would like to airbrush out of the picture. He writes of the gay sub-world (always rebuffed by the governor, Mr Leamer says) of bodybuilding and its rampant steroid abuse. He writes, too, of his long history of treating women as objects of transient sexual satisfaction, which figured prominently in the *Los Angeles Times*'s coverage of the recall election. In short, this is neither a hagiography nor a hatchet job, but a serious attempt to present a balanced picture of a man who, despite the increasing doubts of Californians, is arguably America's most popular (and certainly most intriguing) Republican politician.

But balance does not necessarily mean depth. Mr Leamer's Schwarzenegger is relentlessly positive, has a wicked—often bullying—sense of humour and never admits defeat. But that is so of many successful men, as is the capacity for self-discipline that allowed him to negotiate some of the toughest contracts in Hollywood.

But what is lacking from this, the first of what are bound to be many books devoted to the gubernator, is a sense of what makes Mr Schwarzenegger tick politically. Is the electorally attractive combination of the fiscal conservative and the social liberal the product of a poor background, a positive outlook and a lot of hobnobbing with Hollywood types, or is it a properly thought-out political and economic analysis? Mr Leamer does not tell us.

Perhaps he cannot. Mr Schwarzenegger, as the author points out, is at heart a salesman, and his product is himself. That held true when he was pumping iron, promoting “Conan the Barbarian” or developing The Arnold Classic bodybuilding contest in Columbus, Ohio, a profitable enterprise which still commands his patronage. So why should it not hold true in the realm of politics? The trouble is that even the best salesman can have the wrong product for the market. Will that prove true of Mr Schwarzenegger's role in Sacramento? Too early to say.

But it is not too early to wonder whether the question might one day be posed beyond the confines of California. Mr Leamer, in a brilliantly written opening chapter, makes much of the presidential tone of Mr Schwarzenegger's star appearance at last year's Republican Party Convention in New York. While chances are slim that a constitutional amendment would be passed which would allow a foreign-born American to become president, Mr Schwarzenegger (the Übernarcissist, as some in Sacramento call him behind his back) has a long history of beating the odds. As Mr Leamer concludes, if in the end he fails, it will not have been for want of daring.

Fantastic: The Life of Arnold Schwarzen-egger.
By Laurence Leamer.
St Martin's Press; 320 pages; $24.95. Sidgwick & Jackson; £18.99

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Literary criticism

William the conqueror

Jun 2nd 2005
From The Economist print edition

THE late William Empson was one of the most perceptive and brilliant literary critics of the 20th century. His first book, “Seven Types of Ambiguity”, was published in 1930 when Empson was just 24. An account of the effects that can be obtained by the deliberate or unconscious use of ambiguity in poetry, it marked a milestone in the close scrutiny of poetic practice. Empson was himself also a minor poet of some distinction.

His biographer John Haffenden has been editing Empson's posthumous papers since his death in 1984, culminating in an edition of Empson's “Complete Poems” which was published in 2000. Now Mr Haffenden offers us the first part in what both promises and threatens to be a three-volume biography of the man.

Empson was born and raised in comfortable circumstances in rural Yorkshire. Small of stature, myopic, brilliantly precocious and intensely bookish, he enjoyed a happy childhood. His early passions were for literary analysis and algebraic abstraction, and when he went up to Cambridge University he studied first mathematics and then English literature. After graduation, his college appointed him to a junior fellowship. Then disaster struck. In July 1929 he was found with contraceptives in his rooms; not only was he dismissed for this heinous crime, his name was expunged from the college records.

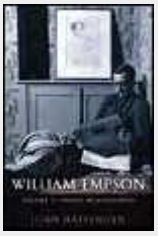
This began years of enforced wandering: life in literary London amongst the bohemians (all beer mugs, shabby clothes, sordid bedsitting rooms), periods of teaching in Japan and, later, China, where he was a witness to the Japanese invasion. His university was being sent into exile. He learnt to sleep on a blackboard, and, in the absence of books, was obliged to teach poetry by drawing on his prodigious memory of literary texts. The book ends with Empson's return to the West at the age of 33, and a future as a war propagandist with the BBC.

Mr Haffenden has been living with the ghost of Empson for more than 20 years, and there are always dangers in such a prolonged co-habitation. By the time Lawrence Thompson had completed his own three-volume biography of Robert Frost, he had fallen wholly out of love with his subject, and his bile badly skewed the enterprise. There seems to be no evidence that Mr Haffenden's affection for or admiration of Empson is any way on the descendent. On the contrary. If anything, he loves his subject too much. He quotes from him at tedious length; no subject is too small for his attention. There is always more to be said, and Mr Haffenden usually finds it in his heart to say it. We should have guessed that this might happen from his edition of the complete poems; of its several hundred pages, 130 contained poetry. The rest was technical apparatus of various kinds: a substantial introduction of 50-odd pages, various appendices, a truly exhaustive bibliography, and 250 pages of notes to the poems themselves.

Empson is undoubtedly important, and especially as a critic, but he is not quite the genius at whose altar Mr Haffenden is planning to spend a good part of the rest of his life worshipping.

William Empson: Volume I—Among the Mandarins.
By John Haffenden.
Oxford University Press; 640 pages; $45 and £30

William Empson: Volume I—Among the Mandarins
By John Haffenden



Oxford University Press; 640 pages; $45 and £30

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Amazon worldwide bestselling fiction

The big book index

Jun 2nd 2005
From The Economist print edition

Make no mistake, he is back

With Ian McEwan and Kazuo Ishiguro out and Michael Cunningham, Cormac McCarthy and Salman Rushdie yet to come, 2005 is the year of the black-maned literary male. But it's the fast-moving female J.K. Rowling and her sixth Harry Potter who is best at capturing the prey.

1. Harry Potter and the Half-Blood Prince.
By J.K. Rowling. *Scholastic; 672 pages; $29.99. Bloomsbury; £16.99*

Nothing will be known about the latest Harry Potter book until it is published on July 16th, other than that the half-blood prince is neither Harry nor his mortal enemy Lord Voldemort and that the opening chapter has been brewing in the author's mind for 13 years. That hasn't stopped British, American and German fans of the dark-eyed myopic schoolboy from ordering the book early, pushing HP6 into world pole position.

Click to buy from Amazon.com or Amazon.co.uk

2. The Da Vinci Code.
By Dan Brown. Doubleday; *454 pages; $24.95. Corgi Adult; £6.99*

If you haven't read this murder-and-maths bestseller you must be a) impossibly high-brow, b) completely illiterate or c) living on Mars.

Click to buy from Amazon.com or Amazon.co.uk

3. The Kite Runner.
By Khaled Hosseini. *Riverhead Books; 384 pages; $14. Bloomsbury; £7.99*

An Afghan immigrant to America returns to his ravaged homeland to rescue the son of a childhood friend after the boy's parents are shot during the Taliban years. A creeping bestseller whose success has occurred almost entirely by word of mouth.

Click to buy from Amazon.com or Amazon.co.uk

4. The Mermaid Chair.
By Sue Monk Kidd. *Viking Adult; 352 pages; $24.95. Review; £14.99*

A confused middle-aged woman leaves her psychiatrist husband when she returns to the South Carolina town where she grew up and falls in love with a monk. Not nearly as original as its predecessor, "The Secret Life of Bees", but still good for a wet weekend.

Click to buy from Amazon.com or Amazon.co.uk

5. The Closers.
By Michael Connelly. *Little, Brown; 416 pages; $26.95. Orion; £17.99*

Harry Bosch ends three years of retirement when he rejoins the Los Angeles Police Department and is put onto resolving the 17-year-old abduction and murder of a mixed-race teenager in the 11th of the series.

Click to buy from Amazon.com or Amazon.co.uk

6. Illuminati.
By Dan Brown. *Lubbe; 800 pages; €8.95*

Dan Brown's Angels and Demons exerts the same pull on German readers as it does in Britain and America.

Click to buy from Amazon.de

7. Artemis Fowl: The Opal Deception.
By Eoin Colfer. *Miramax; 352 pages; $16.95. Puffin Books; £12.99*

The fourth outing for Eoin Colfer's teenage criminal mastermind, Artemis Fowl, is as ever full of action, explosions, treachery, high-speed chases and windy escapes from the Trolls.

Click to buy from Amazon.com or Amazon.co.uk

8. Sakrileg.
By Dan Brown. *Lubbe; 605 pages; 19.90*

The Da Vinci Code in German.

Click to buy from Amazon.de

9. A Long Way Down.
By Nick Hornby. *River-head Books; 272 pages; $24.95. Viking; £17.99*

A low-rent crowd with absolutely nothing in common save where they end up on New Year's Eve.

Click to buy from Amazon.com or Amazon.co.uk

10. 4th of July.
By James Patterson. *Little, Brown; 400 pages; $27.95. Headline; £17.99*

Bright, tough Lindsay Boxer, of the San Francisco Police Department, battles police brutality charges while chasing down a clan of murderers in the fourth installment of the Women's Murder Club series.

Click to buy from Amazon.com or Amazon.co.uk

Global sales from Amazon.com, Amazon.co.uk, Amazon.de, Amazon.fr and Amazon.jp from May 1st-May 31st 2005. Prices are correct as of May 31st 2005.

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Soviet childhood

Death in the taiga

Jun 2nd 2005
From The Economist print edition

LIKE all dictatorships, the Soviet Union needed stories to explain its nastiness and incompetence. One of the most nauseating dates from 1932. It is the tale of a 13-year-old called Pavel Morozov, who shopped his father to the authorities and was then killed by his relatives.

On one level, this was a straightforward Soviet morality tale. Opposing the state was selfish and reactionary, but there were also other subtexts to the Soviet creed. If forced to choose between your family and the state, you chose the state. Families are biological accidents. Parents may be ideologically unsound; it was the state that loved you most, and you should reciprocate. Lastly, your reward would be in (secular) heaven. Standing up for socialism may cost you your life. But rest assured,Soviet martyrology would make you eternally famous.

That, at least, was the line pushed by Soviet propagandists, and they stretched the facts to fit. Pavel (normally known by the diminutive Pavlik) was the Soviet Union's first child hero. As Catriona Kelly notes in her gripping and scholarly book, he was the subject of “songs, plays, a symphonic poem and even a (dreadful) full-length opera, as well as six full-length biographies.” There were many monuments (even one erected by loyal Communists in Sri Lanka). His story was compulsory reading for schoolchildren, and was often inflicted on foreigners learning Russian.

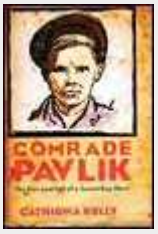
Given the weight placed on it, it is hardly surprising that the story's factual base was completely crushed. It is probably impossible, the author admits, to work out what really happened from the sloppily recorded original evidence, much of it hearsay provided by semi-literate and terrified witnesses. But she makes it pretty clear that the official version of accounts is almost wholly bogus. Pavlik did not snitch on his parents and was most likely murdered after a mundane squabble.

She also shows how the official version's emphasis shifted according to the fashion of the age. In some accounts the father's crime was hoarding grain, in others, having forged papers. Pavlik denounces him sometimes to the secret police, in other versions to his teacher. That partly reflects the way that the Soviet view of childhood changed over the period. Whereas in the 1920s children were seen as natural revolutionaries, by the 1930s more traditional values such as obedience were back in favour. And initiative and Soviet life didn't really mix. “We cannot allow any small boy to behave as if he were Soviet power itself,” said Stalin.

Yet despite that disdain, the myth spread, twisting as it did, until the collapse of the Soviet system when it vanished from public memory. This book, belatedly, anchors Pavlik in the history, literature and politics of the Soviet empire.

Comrade Pavlik: The Rise and Fall of a Soviet Boy Hero.
By Catriona Kelly.
Granta Books; 354 pages; £18.99

Comrade Pavlik: The Rise and Fall of a Soviet Boy Hero
By Catriona Kelly



Granta Books; 354 pages; £18.99

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Venice Biennale

Girl power

Jun 2nd 2005 | VENICE
From The Economist print edition

Romping on the Rialto

Bloody good show

ROSA MARTINEZ and María de Corral, the directors of this year's Venice Biennale which opens on June 12th, are like stars from a Pedro Almodóvar film. Clever, stylish, funny and well-connected, the duo is juggling to complete the job at hand in record time, on a reduced budget and amidst a Byzantine bureaucracy. If they are not yet on the verge, it is only because this is business as usual at the Biennale.

After the 2003 event—dubbed death in Venice because of the crippling heat and chaotic artists' installations—the 110-year-old art funfair has decided to restructure. Its new president, Davide Croff, a former banker, is trying to rationalise the event both financially (by encouraging private finance to supplement a dwindling public subsidy) and curatorially by creating a three-year plan in which the two Spanish women will be followed by a New Yorker, Robert Storr, in 2007.

Ms de Corral, a former director of the Reina Sofía museum and of the Fundación La Caixa collection in Barcelona, Spain's most important contemporary art collection, likes to take the long view. Her exhibition in the labyrinthine Italian pavilion will present a series of "constellations" of contemporary artists, rather than a single dominant view of how art is now. "I am interested in highlighting the relation between artists of different generations, in ideas that emerge like fragments and sketches." On entering, viewers will see a massive cast staircase by Rachel Whiteread, a British sculptor, and then a series of galleries showing emerging artists such as Jorge Macchi, an Argentine, mixed with works by Francis Bacon, Philip Guston and Antoni Tapies.

Ms Martínez, on the other hand, is the baroness of biennali, having made her name as a peripatetic curator of international contemporary art expos in her native Barcelona, Istanbul, Busan (South Korea) and, most recently, Moscow. A biennial exhibition has an obligation to test the present, to challenge it, she says. "It provides a temporary global agora, a place for encounters between people...a chance to create new kinds of neighbourhoods between artists and audiences."

Ms Martínez's domain is the Arsenale, the monumental Renaissance armoury that once supplied the Venetian navy and is now open only for the Biennale. Traditionally this is the space for the most avant-garde art, and Ms Martínez is like an inmate who has taken over the asylum. She believes in art's power to transform the status quo. "It can subvert established systems, rather than reinforce them."

Since the two were appointed last August, much has been made of the fact that they are the first women to have done the job and they have chosen a record number of female artists—more than a third of the 92 names whose work is appearing in their respective exhibitions. But the curators differ on whether this Biennale is a feminist event. Ms de Corral says it is not. "I do not have a deliberate agenda to include more women." But she has devoted space to Barbara Kruger and Jenny Holzer. Although they are best known for the radical feminist works they made in the 1970s, Ms de Corral has chosen to emphasise their prophetic qualities by selecting some of their word-based works that criticise the abuse of power in the media. "In the 1960s and 1970s, feminist artists used their bodies to express ideas, but these two were the first to use their minds. Their work has been incredibly influential."

Ms Martínez believes this Biennale is none other than a feminist statement. She has invited the Guerrilla Girls, a feminist artist's collective, to perform, and is trying to include as many female artists as possible. “I believe in positive discrimination”, she says. “I wanted half of the artists to be female. But I couldn't find enough because women artists have children, relationships, break-ups that slow down their careers. These things happen to male artists too but somehow their careers continue. Women cannot afford to relax.”

Ms Martínez titled her show “Always a Little Further”, inspired by her favourite Corto Maltese comic strip, in which the hero is always pushing the envelope and making one more journey. She has no qualms about injecting the pop culture of comics into an exhibition that also includes a Samuel Beckett play, Rem Koolhaas's architecture and installations by esteemed contemporary artists like the nonagenarian Louise Bourgeois. “I like to mix art forms, generations, media, genders,” Ms Martínez says. Among the more radical works here is Joana Vasconcelos's chandelier made of tampons, which, from a distance, look like shiny white glass. “It is pop and ironic, beautiful and rich in metaphor—and it uses industrial materials in new ways,” she says with a grin.

According to Ms Martínez, curators are more necessary than ever. Art and commerce have always been interdependent. But, she sees herself as a mediator who strikes a balance between the economic necessities of the market and the utopian dreams of artists. “Like a therapist or an editor, a curator is someone who finds meaning in the chaos of messages that surround us. My motto comes from the philosopher Gilles Deleuze—we have to think, create, resist.” His words are a good banner for the Venice Biennale.

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The challenge of Europe

Back to the future

Jun 2nd 2005
From The Economist print edition

While Europhiles flounder after the first no vote by a founder member, the latest crop of European books offers reasons for reflection

THE European Union entered the 21st century plagued by doubts. That is why the heads of government, meeting at Laeken in December 2001, called for a European constitution based on the values of democracy and transparency. The former French president, Valéry Giscard d'Estaing, who chaired the convention which drew up the constitution, hoped that it would be understood by an educated teenager.

In **The Accidental Constitution: The Story of the European Convention**, (EuroComment), which first came out in 2003 and has now been updated, Peter Norman accepts that these aims have not been achieved, but argues that the constitution would, nevertheless, have considerably improved the working of European institutions. Mr Norman was Brussels bureau chief of the *Financial Times* from 1998 to 2002, and had a ringside seat at the convention.

Although he is a supporter, he analyses the problems of the constitution with scrupulous fairness. The reader will have no difficulty in appreciating why it has so few friends. Certainly, it does not provide for the values of democracy and transparency which the heads of government called for at Laeken. Mr Norman's is that rare thing, an objective account of the problems facing the European Union. Despite the no votes, his book has by no means been overtaken by events, and should be carefully consulted by those seeking to recover something from the wreck.

At the core of the European debate has been the relationship between the EU and national governments. Many inter-governmentalists claim that governments remain in control of the integration process, while supranationalists argue that EU institutions have acted as the motor of union. In **The Dynamics of European Integration: Why and When EU Institutions Matter** (Palgrave Macmillan), Derek Beach, a professor of political science at Aarhus University, cuts through this debate by asking under what circumstances EU institutions can exert influence. His unfashionable conclusion, based on comparative analysis of the main inter-governmental conferences since 1985, is that the supranational institutions are crucial.

Only the European Commission, he believes, can provide leadership for a Union of 25 member states which otherwise will “drift listlessly from one sub-optimal outcome to another.” It is not clear, however, whether European electorates can be persuaded to cede more power to supranational institutions, unless the powers that already exist can be made more accountable and transparent.

Europe, moreover, has not been able to equip itself with a defence policy. In June 1991, following Serbia's attack on Slovenia, Jacques Poos, Luxembourg's foreign minister, memorably declared that “the hour of Europe” had arrived. Yet, a common European foreign and defence policy seems as far away as ever. **Defending Europe: The EU, NATO and the Quest for European Autonomy**, (Palgrave Macmillan), edited by Jolyon Howorth and John Keeler, examines the European Union's current attempts to establish a defence system within the overall security architecture of the Atlantic world.

The Franco-British Declaration at St-Malo in 1998 was intended to lead to the construction, within the EU, of a common European Defence and Security Policy. Since then, however, British-French relations have been marked more by conflict than consensus. Moreover, the Iraq crisis shows that a European Gaullist policy, in opposition to the United States, would split the continent, not unite it. The essays in “Defending Europe”, provide an expert and dispassionate treatment of the complex issues involved.

Dispassionate is not a term often associated with John Redwood, a rabidly Eurosceptic Tory MP. **Superpower Struggles: Mighty America, Faltering Europe, Rising Asia**, (Palgrave Macmillan), is a

polemic which argues that Britain should renegotiate its position in the EU so as to be a more effective partner with the United States in the battle for supremacy that has already begun between America and Asia.

However, Mr Redwood's suggestion that we are near the painful birth of a “United States of Europe” seems rather implausible. Indeed, French rejection of the constitution occurred in part because the French left believed it to be insufficiently integrationist, too much influenced by “les Anglo-Saxons”. Perhaps both Britain and France would benefit from an exchange of Eurosceptics; or perhaps the Eurosceptics are right to be sceptical, not because the pressures for European unity are too strong, but because they are too weak. It is possible that a more broadly sceptical Europe would be one in which Britain could at last find itself at home.

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Correction: Lord Williams

Jun 2nd 2005

In our review of Charles Williams's biography of Marshal Pétain (May 21st) we referred to the author as Mr Williams. He is, in fact, Lord Williams. We apologise for demoting him.

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Obituary

Ismail Merchant

Jun 2nd 2005
From The Economist print edition

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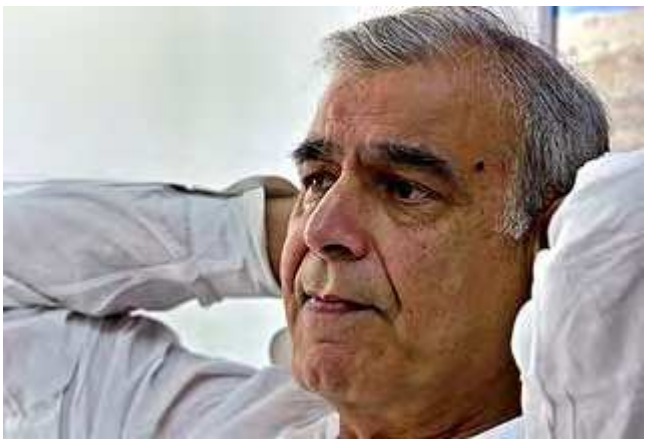

Ismail Merchant, film producer, died on May 25th, aged 68

FOR a devout Muslim, it was ironic that Ismail Merchant was born on Christmas Day, 1936. Not that religion played any conspicuous part in the films he made with his American partner, James Ivory, for Merchant Ivory Productions. Merchant Ivory pictures were entirely secular, concerned at first with the impact of the British Raj on India and later with the way non-conformists (in the literal sense) were affected by class distinction and prejudice in English and American literature.

The Merchant Ivory collaboration spanned 44 years, the longest in the history of cinema. Yet despite the name it was, in its glory days, a triumvirate. Mr Merchant produced, Mr Ivory directed and the vital third dimension was provided by Ruth Prawer Jhabvala, who wrote the scripts. Typically, Mr Merchant persuaded the novelist to join them by his sheer enthusiasm. Their agreement was signed in a day, on a paper napkin.

In a world where directors are still often regarded as the closest cinema comes to authors in the literary sense, it is easy to underestimate the role of the wheeler-dealer who raises the money and oversees the budget. Creative producers, instinctively able to reconcile the ideal with the practical, are a rare breed. Such men provide a nursery in which directors can thrive artistically, while shaping the production slate to material that will also be popular. They know how far to indulge real talent and when to rein it in.

Mr Merchant, the son of a Bombay textile-dealer, was of this fraternity. The only boy in a family of daughters, he was precocious and had charm to spare. At St Xavier's college, where he went to school, he delighted in staging variety shows, eventually making enough money from them to finance an MBA in New York. There the young Ismail, already spellbound by cinema and, in particular, by the films of Satyajit Ray, dreamed of producing movies that would mix the talents and the cultures of India and America.

In 1960 he so successfully publicised his first short, “The Creation of Woman”, that it was nominated for an Oscar and a Golden Palm at Cannes. He knew how the business worked and, as handsome as the Bollywood idols he sometimes cast in his pictures, he could sweet-talk a budget out of the hardest financial hearts. An Ismail Merchant charm offensive was something to see. Though never a sycophant, he made stuffy bankers feel loved and good about themselves, and let them believe that backing a Merchant Ivory had been all their own idea.

Clients were impressed by him because he had a sure instinct for what would sell and who could best

realise it. James Ivory, a brahmin among Americans, was the ideal man to realise Mr Merchant's own dream of an American-Indian *mélange*. He was steeped in the culture not only of his own country, but of India too; long before they met, Mr Ivory's short documentary “The Sword and the Flute” had struck Mr Merchant as one of the truest impressions of India he had seen. Similarly, when he met Mrs Jhabvala he grasped immediately that, as a European who had spent many years in India, she had a dual perspective that would complement Mr Ivory's. Adaptations of her novels, “The Householder” and “Heat and Dust”, became the first Merchant Ivory productions.

Though such works took the fancy of the critics, they were not the films that are now indelibly associated with Merchant Ivory. These were the adaptations of novels by Henry James and E. M. Forster, a trio for each author: James's “The Europeans”, “The Bostonians” and “The Golden Bowl”, and Forster's “A Room with a View”, “Maurice” and “Howard's End”. All were distinguished by sets, costumes and colour photography that brought the past vividly to life. The public adored them, though, as the series grew and was imitated, cultural snobs began to dismiss such movies as the cinematic equivalent of perfectly-preserved old properties owned by the National Trust.

Curry on Fridays

Mr Merchant insisted that the company never went ahead with a project unless there was complete commitment from all parties. Some films, however, were more experimental than others. “Hullabaloo over Georgie and Bonnie's Pictures” (1978) made with a television company, or “Savages” (1972), an extraordinary allegory of the limits of civilisation, had no broad public appeal. So why did Merchant Ivory make them? The answer lay in Mr Merchant's ability to keep tight control of budgets, especially on more recherché productions. No money from the more successful ventures was leached from the company. The hits bankrolled the misses.

Mr Merchant made a few films himself, including “Cotton Mary” and “The Mystic Masseur”. His most successful work was a semi-documentary, “The Courtesans of Bombay”, made for television in 1983. But he realised early that Mr Ivory was the creative force in their partnership. His own gifts lay elsewhere—a combination, perhaps unique in modern cinema, of taste, discipline and financial acumen. He also made possibly the best curry ever served up by a producer, and would cook it for the whole cast and crew on a shoot, every Friday, as if they were one big family.

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Overview

Jun 2nd 2005
From The Economist print edition

The **euro** weakened after the EU constitution was rejected in French and Dutch referendums. During trading on June 1st, the single currency fell below $1.22.

Long-term **interest rates** also slipped. Yields fell below 4% on America's ten-year Treasury bond, and below 3.3% on ten-year German sovereign bonds.

Unemployment in the euro area remained high, but stable, at 8.9% in April. Manufacturing activity fell to a 22-month low, according to the NTC Research survey of purchasing managers. The European Commission's measure of business and consumer confidence also fell in May for the fourth month in a row.

American **manufacturers** lost momentum in May, but consumers regained confidence. The Chicago survey of purchasing managers in manufacturing plunged to 54.1 in May from 65.6 the month before. A figure above 50 indicates an expansion of activity. But consumer sentiment bounced back in May after April's drop, according to the Conference Board.

In **Japan**, industrial production grew by 0.6% in the year to April, after expanding by 1.2% in the year to March.

Canada's GDP grew at an annual pace of 2.3% in the first quarter, leaving the economy 3.3% bigger than a year ago.

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Output, demand and jobs

Jun 2nd 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q1	+ 2.8	+ 2.5	+ 3.2	– 0.4	Q4	+ 1.8	Q1	5.1	Apr	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.0	+ 2.0	+ 1.9	Mar	+ 3.2	Mar	4.6	May	4.4
Belgium	+ 1.8	Q1	nil	+ 2.0	+ 2.2	– 5.9	Mar	+ 3.4	Mar	12.3	Apr†	12.4
Britain	+ 2.7	Q1	+ 2.0	+ 2.4	+ 2.2	– 1.8	Mar	+ 2.3	Apr	4.7	Mar††	4.8
Canada	+ 3.3	Q1	+ 2.3	+ 2.7	+ 3.0	+ 1.3	Mar	+ 6.3	Feb	6.8	Apr	7.2
Denmark	+ 0.8	Q1	+ 0.6	+ 2.1	+ 2.2	– 4.5	Mar	+ 3.7	Mar	5.9	Apr	6.5
France	+ 1.7	Q1	+ 0.8	+ 1.9	+ 2.0	– 0.5	Mar	+ 1.5	Mar	10.2	Apr	10.0
Germany	+ 1.1	Q1	+ 4.2	+ 0.9	+ 1.5	+ 1.9	Mar	nil	Mar	11.8	Apr§	10.5
Italy	– 0.2	Q1	– 1.8	+ 0.8	+ 1.4	– 2.9	Mar	– 0.8	Feb	8.0	Dec	8.2
Japan	+ 1.2	Q1	+ 5.3	+ 1.1	+ 1.8	+ 0.6	Apr	+ 0.7	Mar	4.4	Apr	4.7
Netherlands	– 0.3	Q1	– 0.6	+ 1.1	+ 1.7	– 2.9	Mar	– 2.7	Feb	6.6	Apr**	6.4
Spain	+ 3.3	Q1	+ 3.5	+ 2.7	+ 2.6	– 6.5	Mar	+ 1.8	Mar	10.0	Apr	11.2
Sweden	+ 2.0	Q4	+ 1.4	+ 2.8	+ 2.8	+ 4.4	Mar	+ 8.0	Mar	5.8	Apr†	5.4
Switzerland	+ 0.8	Q1	+ 0.2	+ 1.2	+ 1.7	+ 4.7	Q4	– 0.3	Mar	3.8	Apr†	3.9
United States	+ 3.7	Q1	+ 3.5	+ 3.5	+ 3.2	+ 3.1	Apr	+ 3.0	Mar	5.2	Apr	5.5
Euro area	+ 1.3	Q1	+ 2.0	+ 1.4	+ 1.8	– 0.1	Mar	+ 1.4	Mar	8.9	Apr	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	+ 1.2	Apr	+ 2.9	Mar	10.0	Apr†	10.6
Greece	+ 3.6	Q1	na	na	na	– 4.9	Mar	– 2.9	Jan	10.2	Dec	9.8
Iceland	+ 3.8	Q4	na	na	na	na		na		2.6	Mar†	3.5
Ireland	+ 2.8	Q4	na	na	na	– 3.4	Mar	+ 4.6	Mar	4.2	Apr	4.6
Luxembourg	+ 3.8	Q4	na	na	na	+ 6.3	Feb	+ 2.6	Mar	4.6	Mar	4.2
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 3.5	Q4	+ 5.8	Q1	3.9	Q1	4.2
Norway	+ 3.2	Q4	+ 6.1	na	na	– 7.0	Mar	+ 8.5	Apr	4.6	Apr**	4.3
Portugal	+ 0.6	Q4	– 1.1	na	na	– 3.2	Mar	+ 3.0	Mar	7.5	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jan-Mar; claimant count rate 2.7% in Apr. §EU harmonised rate 9.5% in Mar. **Feb-Apr.

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Prices and wages

Jun 2nd 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.4	Q1	+ 2.0	+ 2.6	+ 2.7	+ 6.0	Q1	– 1.1	+ 4.5	Q1	+ 5.0
Austria	+ 2.6	Apr	+ 1.6	+ 2.0	+ 1.6	+ 2.6	Apr	+ 5.2	+ 2.2	Apr	+ 2.2
Belgium	+ 2.5	May	+ 2.6	+ 1.9	+ 1.7	+ 3.3	Apr	+ 2.6	+ 2.3	Jan	+ 1.9
Britain	+ 1.9	Apr*	+ 1.2	+ 1.8	+ 1.9	+ 3.2	Apr	+ 1.8	+ 4.6	Mar†	+ 5.1
Canada	+ 2.4	Apr	+ 1.6	+ 2.0	+ 2.1	+ 1.5	Apr	+ 2.3	+ 2.5	Feb	+ 3.5
Denmark	+ 1.8	Apr	+ 0.8	+ 1.4	+ 1.7	+ 3.8	Apr	+ 1.6	+ 2.9	Q4	+ 3.5
France	+ 1.8	Apr	+ 2.1	+ 1.6	+ 1.6	+ 3.1	Apr	+ 1.3	+ 2.9	Q1	+ 2.8
Germany	+ 1.7	May	+ 2.0	+ 1.4	+ 1.1	+ 3.2	Apr	+ 2.4	+ 1.5	Mar	+ 1.5
Italy	+ 1.9	May	+ 2.3	+ 1.9	+ 1.9	+ 4.4	Apr	+ 1.7	+ 3.5	Apr	+ 2.8
Japan	nil	Apr	– 0.4	nil	+ 0.3	+ 1.8	Apr	+ 0.6	+ 0.7	Mar	+ 2.2
Netherlands	+ 1.5	Apr	+ 1.4	+ 1.4	+ 1.0	+ 4.9	Mar	– 0.2	+ 0.7	Apr	+ 1.6
Spain	+ 3.5	Apr	+ 2.7	+ 2.9	+ 2.6	+ 5.0	Apr	+ 2.6	+ 2.6	Q4	+ 3.3
Sweden	+ 0.3	Apr	+ 0.3	+ 0.6	+ 1.5	+ 2.7	Apr	– 0.2	+ 4.2	Mar	+ 1.5
Switzerland	+ 1.0	May	+ 0.9	+ 1.2	+ 1.2	+ 1.3	Apr	+ 0.7	+ 0.9	2004	+ 1.4
United States	+ 3.5	Apr	+ 2.3	+ 2.8	+ 2.5	+ 4.8	Apr	+ 3.7	+ 2.7	Apr	+ 2.2
Euro area	+ 2.0	May	+ 2.5	+ 1.8	+ 1.6	+ 4.2	Mar	+ 0.4	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.2	Apr	– 0.4	na	na	+ 3.1	Apr	+ 0.5	+ 4.1	Q1	+ 4.2
Greece	+ 3.4	Apr	+ 2.9	na	na	+ 4.7	Mar	+ 2.1	na		na
Iceland	+ 2.9	May	+ 3.2	na	na	+ 6.6	Apr	+ 2.7	+ 6.7	Apr	+ 4.0
Ireland	+ 2.2	Apr	+ 1.4	na	na	– 1.8	Apr	– 4.1	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.5	Apr	+ 2.1	na	na	+13.9	Mar	+ 2.5	+ 0.6	Feb	+ 4.0
New Zealand	+ 2.8	Q1	+ 1.5	na	na	+ 4.2	Q1	– 0.6	+ 2.5	Q1	+ 2.2
Norway	+ 1.1	Apr	+ 0.4	na	na	+17.5	Apr	+12.3	+ 3.7	Q1	+ 3.5
Portugal	+ 2.1	Apr	+ 2.3	na	na	+ 4.4	Apr	+ 1.1	– 4.0	Mar	+ 1.9

*RPI inflation rate 3.2% in Apr. †Jan-Mar.

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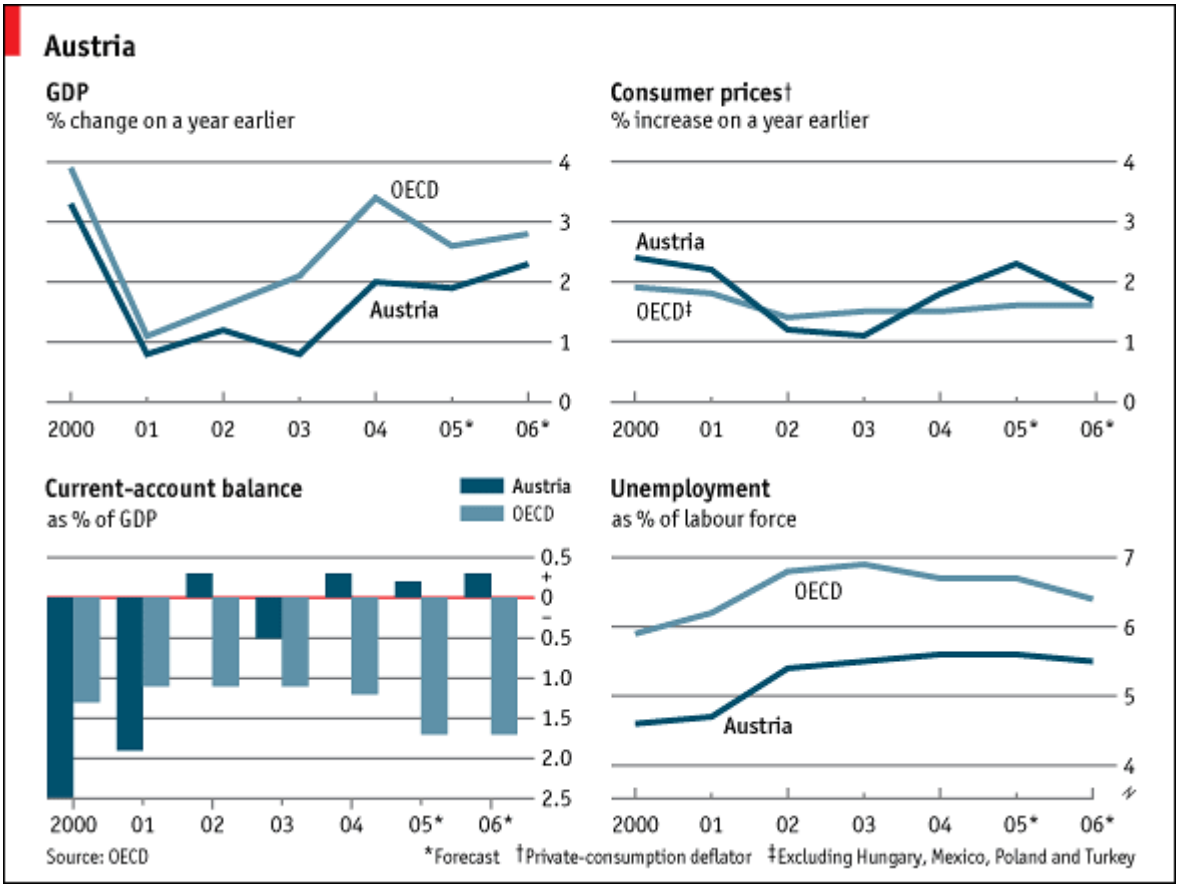
Austria

Jun 2nd 2005
From The Economist print edition



The country retains its position among the top European economies, according to a new survey of Austria by the OECD. After a slowdown in 2003, strong exports pushed GDP growth to 2% in 2004. Despite the recent softness in the economy, unemployment remains low. But Austria should coax more of its older citizens into the labour force. This would increase the size of the economy and ease the burden of an ageing population. The first and obvious step is to eliminate the pension system's incentives for early retirement. Public sector debt is high at 65% of GDP. And the government will need to improve public-sector efficiency in order to balance the budget by 2008. Austria would also do well to improve its economic competitiveness, the OECD says. Better investment in education would spur growth. While Austria spends a great deal on higher education, graduation rates are among the lowest in the OECD.

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Money and interest rates

Jun 2nd 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Jun 1st 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.0	+ 9.0	Apr	5.68	5.49	5.11	5.12	5.88	6.14
Britain	+ 4.8	+10.4	Apr	4.81	4.63	4.19	4.24	5.20	5.21
Canada	+13.5	+10.8	Apr	2.43	2.01	2.78	3.88	5.14	5.46
Denmark	+17.7	+11.3	Apr	2.20	2.25	2.10	3.20	4.49	4.89
Japan	+ 4.6	+ 1.9	Apr	0.02	0.02	0.08	1.23	1.55	1.34
Sweden	+ 2.2	+ 3.7	Apr	1.82	1.98	2.09	3.16	4.69	2.89
Switzerland	- 7.1	+ 2.1	Apr	0.75	0.26	0.93	1.92	2.80	1.96
United States	+ 2.0	+ 4.5	Apr	3.28	1.20	3.49	3.90	4.73	5.05
Euro area†	+ 9.3	+ 6.7	Apr	2.12	2.09	2.11	3.19	4.31	3.51

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.24%, Japan No. 269 1.22%. Central bank rates: US fed funds 3.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jun 2nd 2005
From The Economist print edition

2000=100

	May 24th	May 31st*	% change on one month	% change on one year
Dollar index				
All items	133.1	133.6	+ 1.0	- 2.1
Food	129.3	130.7	+ 2.8	- 5.7
Industrials				
All	138.0	137.4	- 1.2	+ 2.7
Nfa†	129.5	131.1	+ 1.1	- 7.8
Metals	142.7	140.9	- 2.3	+ 9.1
Sterling index				
All items	110.4	111.2	+ 4.7	- 1.3
Euro index				
All items	97.8	100.1	+ 5.4	- 3.1
Yen index				
All items	132.8	133.6	+ 3.5	- 4.0
Gold				
$ per oz	417.85	416.05	- 2.8	+ 5.3
West Texas Intermediate				
$ per barrel	49.63	51.65	+ 4.4	+22.0

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Jun 2nd 2005
From The Economist print edition

Market indices

		2005		% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
	Jun 1st	high	low				
Australia (All Ordinaries)	4,103.7	4,255.8	3,905.5	+ 1.4	- 3.6	+ 1.2	- 3.0
Austria (ATX)	2,830.9	2,830.9	2,415.0	+ 5.1	nil	+16.4	+ 5.0
Belgium (Bel 20)	3,074.0	3,197.3	2,958.8	- 0.1	-16.5	+ 4.8	- 5.4
Britain (FTSE 100)	5,011.0	5,060.8	4,783.6	+ 0.8	-27.7	+ 4.1	- 1.6
Canada (Toronto Composite)	9,654.2	9,927.2	9,006.2	+ 1.5	-15.2	+ 4.4	+ 0.4
Denmark (KBX)	296.8	296.8	257.8	+ 2.0	- 1.6	+15.1	+ 3.8
France (SBF 250)	2,891.4	2,891.4	2,633.6	+ 2.0	-34.1	+ 9.8	- 1.0
(CAC 40)	4,178.3	4,178.3	3,816.1	+ 1.9	-39.6	+ 9.3	- 1.3
Germany (DAX)*	4,527.2	4,527.2	4,178.1	+ 3.1	-43.9	+ 6.4	- 4.0
Italy (S&P/MIB)	32,111.0	32,856.0	30,645.0	+ 1.7	-35.9	+ 3.9	- 6.3
Japan (Nikkei 225)	11,329.7	11,966.7	10,825.4	+ 2.9	-70.9	- 1.4	- 6.7
(Topix)	1,149.5	1,203.3	1,109.2	+ 2.2	-60.2	nil	- 5.4
Netherlands (AEX)	371.5	379.8	347.0	+ 1.5	-47.0	+ 6.7	- 3.7
Spain (Madrid SE)	1,032.7	1,032.7	950.9	+ 2.1	- 9.9	+ 7.7	- 2.9
Sweden (Affarsvarlden Gen)	238.6	240.4	218.9	+ 1.5	-40.4	+ 7.9	- 3.8
Switzerland (Swiss Market)	6,210.3	6,210.3	5,669.6	+ 1.9	-26.2	+ 9.1	- 0.8
United States (DJIA)	10,548.8	10,940.6	10,012.4	+ 0.9	-10.0	- 2.2	- 2.2
(S&P 500)	1,202.2	1,225.3	1,137.5	+ 1.0	-21.3	- 0.8	- 0.8
(NASDAQ Comp)	2,087.9	2,152.2	1,904.2	+ 1.8	-58.6	- 4.0	- 4.0
Europe (FTSEurofirst 300)†	1,120.6	1,120.6	1,038.6	+ 2.3	-34.3	+ 7.6	- 3.0
Euro area (FTSE Euro 100)†	951.4	952.4	894.4	+ 2.1	-38.6	+ 5.6	- 4.7
World (MSCI)‡	1,148.8	1,193.0	1,115.0	+ 0.7	-20.7	- 1.8	- 1.8
World bond market (Citigroup)††	644.3	662.3	642.6	- 0.9	- 2.7	- 3.3	- 3.3

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jun 2nd 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Jun 1st	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Jun 1st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.1	Apr	− 42.4	Q1	− 5.6	− 5.0	114.9	108.3	1.33	1.43	2.42	1.63	1.23	+ 0.9
Austria	nil	Mar	− 0.4	Mar	− 0.6	− 0.8	105.1§	104.1	0.82	0.81	1.48	–	0.75	− 2.0
Belgium	+ 16.7	Mar	+ 12.0	Dec	+ 3.4	+ 3.3	105.9§	104.5	0.82	0.81	1.48	–	0.75	− 0.5
Britain	−108.9	Mar	− 49.0	Q4	− 2.6	− 2.6	100.3	102.5	0.55	0.54	–	0.68	0.51	− 2.9
Canada	+ 49.4	Mar	+ 20.2	Q1	+ 1.8	+ 1.5	115.7	106.1	1.25	1.36	2.26	1.53	1.15	+ 1.2
Denmark	+ 9.3	Mar	+ 7.4	Mar	+ 2.2	+ 2.1	105.6	105.8	6.07	6.06	11.0	7.44	5.60	+ 1.8
France	− 18.9	Mar	− 10.9	Mar	− 0.3	− 0.1	108.7§	107.1	0.82	0.81	1.48	–	0.75	− 3.0
Germany	+199.4	Mar	+109.0	Mar	+ 3.1	+ 2.9	106.7§	104.9	0.82	0.81	1.48	–	0.75	− 3.5
Italy	− 4.6	Mar	− 18.8	Mar	− 1.0	− 1.1	77.8§	76.7	0.82	0.81	1.48	–	0.75	− 4.4
Japan	+125.9	Mar	+170.1	Mar	+ 3.6	+ 3.6	88.1	86.8	108	110	197	133	–	− 6.1
Netherlands	+ 38.6	Mar	+ 33.9	Q1	+ 3.5	+ 3.5	105.5§	104.0	0.82	0.81	1.48	–	0.75	− 2.2
Spain	− 83.1	Mar	− 55.5	Feb	− 4.9	− 5.0	78.1§	77.3	0.82	0.81	1.48	–	0.75	+ 0.5
Sweden	+ 23.0	Apr	+ 29.7	Q1	+ 7.0	+ 6.4	98.0	98.4	7.45	7.44	13.5	9.14	6.88	+ 0.8
Switzerland	+ 7.0	Apr	+ 40.8	Q4	+11.9	+11.4	107.5	108.1	1.25	1.24	2.27	1.53	1.16	− 1.0
United States	−700.9	Mar	−665.9	Q4	− 6.2	− 6.0	85.2	87.5	–	–	1.82	1.23	0.92	− 4.1
Euro area	+ 74.9	Mar	+ 42.1	Mar	+ 0.5	+ 0.5	115.1	115.1	0.82	0.81	1.48	–	0.75	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.1	Mar	+ 7.9	Mar	na	na	82.7§	81.7	0.82	0.81	1.48	–	0.75	+ 1.3
Greece	− 32.6	Feb	− 10.7	Mar	na	na	60.5§	59.9	0.82	0.81	1.48	–	0.75	− 3.8
Iceland	− 0.7	Apr	− 1.0	Q4	na	na	103.4**	97.0	64.6	71.4	117	79.2	59.6	+ 1.1
Ireland	+ 40.6	Mar	− 0.8	Q4	na	na	96.6§	94.1	0.82	0.81	1.48	–	0.75	− 0.7
Luxembourg	− 4.6	Mar	+ 2.9	Q4	na	na	105.9§	104.5	0.82	0.81	1.48	–	0.75	− 0.8
New Zealand	− 3.0	Apr	− 6.2	Q4	na	na	136.3	123.7	1.43	1.60	2.59	1.75	1.32	+ 3.2
Norway	+ 40.9	Apr	+ 34.4	Dec	na	na	109.9	106.9	6.45	6.68	11.7	7.90	5.95	+ 14.4
Portugal	− 19.2	Feb	− 13.9	Mar	na	na	94.7**	94.1	0.82	0.81	1.48	–	0.75	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, March average. ‡OECD forecast. **IMF, January average.

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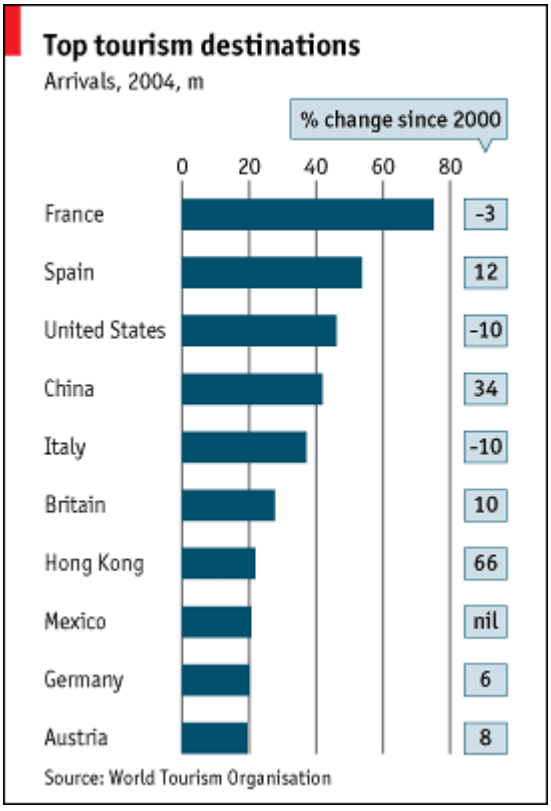
Top tourism destinations

Jun 2nd 2005
From The Economist print edition



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Overview

Jun 2nd 2005
From The Economist print edition

Brazil's economy slowed more than was expected in the first three months of 2005, after a series of interest-rate hikes dampened domestic demand. GDP grew by 2.9% in the year to the first quarter, compared with 4.9% in the year to the fourth quarter of 2004.

In the **Philippines**, output grew by 4.6% in the year to the first quarter, down from 5.4% in the year to the fourth quarter. In **Poland**, the economy also disappointed over this period, growing by just 2.1%.

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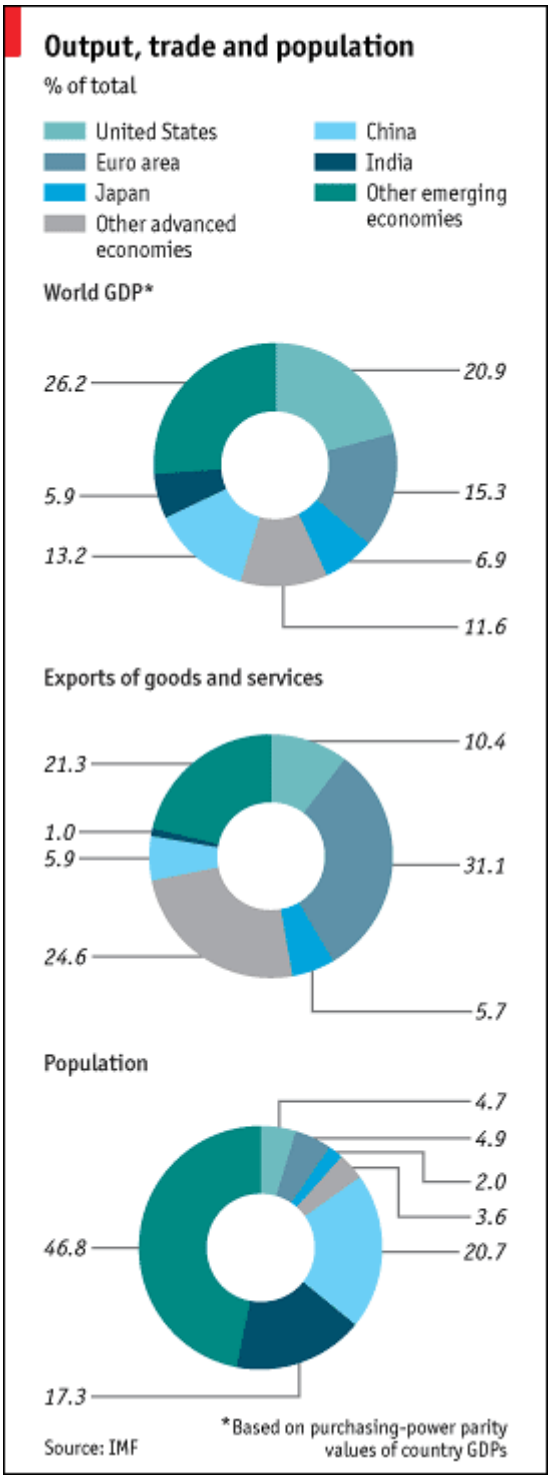
Output, trade and population

Jun 2nd 2005
From The Economist print edition

Rich countries accounted for more than 50% of the world's GDP, but only 15% of its population in 2004, the IMF reports. The rich also dominate trade. A third of exports came from the euro area, home to just 5% of the world's people. China's fabled export machine supplied just 6%.



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Economy

Jun 2nd 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q1	+16.0	Apr	+ 1.8	Apr	+64.1	Apr	+68.7	2004	659.1	Mar
Hong Kong	+ 6.0	Q1	+ 5.0	Q4	+ 0.5	Apr	−10.2	Apr	+16.4	Q4	122.6	Apr
India	+ 6.2	Q4	+ 7.2	Mar	+ 5.0	Apr	−28.9	Apr	− 3.9	Q4	136.0	Apr
Indonesia	+ 6.4	Q1	+10.1	Mar	+ 7.4	May	+27.5	Apr	+ 2.9	Q4	34.7	Mar
Malaysia	+ 5.7	Q1	+ 5.0	Mar	+ 2.7	Apr	+22.8	Mar	+15.1	Q4	73.0	Apr
Philippines	+ 4.6	Q1	+ 2.4	Feb	+ 8.5	Apr	nil	Mar	+ 2.1	Dec	14.1	Apr
Singapore	+ 2.5	Q1	+ 4.8	Apr	+ 0.4	Apr	+15.9	Apr	+29.2	Q1	116.6	Apr
South Korea	+ 2.7	Q1	+ 3.8	Apr	+ 3.1	May	+27.6	May	+25.4	Apr	206.3	Apr
Taiwan	+ 2.5	Q1	+ 0.6	Apr	+ 1.6	Apr	+ 3.6	Apr	+16.9	Q1	252.6	Apr
Thailand	+ 5.1	Q4	+ 7.1	Mar	+ 3.7	May	− 3.2	Apr	+ 2.0	Apr	48.1	Apr
Argentina	+ 8.4	Q4	+ 7.4	Apr	+ 8.8	Apr	+11.7	Mar	+ 3.0	Q4	20.1	Apr
Brazil	+ 2.9	Q1	+ 1.7	Mar	+ 8.1	Apr	+38.1	May	+14.3	Apr	61.1	Apr
Chile	+ 5.7	Q1	+10.1	Apr	+ 2.9	Apr	+ 9.1	Apr	+ 1.1	Q1	17.3	May
Colombia	+ 4.3	Q4	nil	Feb	+ 5.0	May	+ 0.8	Jan	− 1.1	Q4	13.1	Apr
Mexico	+ 2.4	Q1	− 4.7	Mar	+ 4.6	Apr	− 9.8	Apr	− 8.7	Q1	64.1	Mar
Peru	+ 4.0	Mar	+ 2.1	Mar	+ 1.8	May	+ 3.2	Mar	+ 0.4	Q1	13.6	Mar
Venezuela	+ 7.9	Q1	+ 9.5	Feb	+17.4	May	+22.6	Q1	+14.9	Q1	19.1	Feb
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 5.6	Mar	− 9.0	Q4	+ 4.3	Q4	16.4	Mar
Israel	+ 3.9	Q1	+ 3.3	Mar	+ 0.3	Apr	− 7.0	Apr	+ 0.5	Q4	26.7	Apr
South Africa	+ 4.2	Q1	+ 1.2	Mar	+ 3.4	Apr	− 2.1	Apr	− 7.0	Q4	14.3	Apr
Czech Republic	+ 4.3	Q4	+ 0.1	Mar	+ 1.6	Apr	+ 0.1	Mar	− 5.6	Q4	27.8	Apr
Hungary	+ 3.8	Q4	+ 3.9	Mar	+ 3.9	Apr	− 2.9	Q4	− 8.8	Q4	17.3	Apr
Poland	+ 2.1	Q1	− 1.0	Apr	+ 3.0	Apr	− 4.9	Mar	− 2.8	Mar	36.8	Mar
Russia	+ 4.9	Q1	+ 5.0	Apr	+13.4	Apr	+100.9	Apr	+69.7	Q1	140.5	Apr
Turkey	+ 6.3	Q4	+ 5.5	Mar	+ 8.2	Apr	−36.3	Apr	−16.5	Mar	37.3	Apr
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.9	Q4	+11.3	Apr	+ 4.7	Apr	− 1.8	Mar	− 1.4	Q4	1.9	Mar
Latvia	+ 8.6	Q4	+ 0.8	Mar	+ 6.9	Apr	− 2.8	Mar	− 1.7	Mar	2.0	Mar
Lithuania	+ 5.5	Q1	na		+ 3.2	Apr	− 2.9	Mar	− 1.6	Q4	3.5	Mar
Slovakia	+ 5.0	Q1	− 2.2	Mar	+ 2.7	Apr	− 1.7	Mar	− 1.8	Mar	17.6	Mar
Slovenia	+ 4.3	Q4	− 3.8	Mar	+ 2.2	May	− 1.6	Mar	− 0.3	Mar	8.7	Feb
Pakistan	+ 6.4	2004†	+28.3	Nov	+11.1	Apr	− 6.2	Apr	− 1.5	Q1	10.7	Apr
Saudi Arabia	+ 5.2	2004	na		+ 0.6	Mar	+84.9	2004	+51.5	2004	23.3	Mar

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Jun 2nd 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 1st		Dec 31st 2004	
	Jun 1st	year ago	Jun 1st	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.0	2.50	1,090.6	-3.1	- 18.0	- 18.0
Hong Kong	7.78	7.80	14.1	3.35	13,873.1	+2.3	- 2.5	- 2.7
India	43.8	45.3	79.4	5.15	6,729.9	+2.0	+ 1.9	+ 1.3
Indonesia	9,576	9,445	17,385	8.12	1,082.9	+3.2	+ 8.3	+ 5.0
Malaysia	3.80	3.80	6.90	2.85	862.0	-0.9	- 5.0	- 5.0
Philippines	54.6	55.7	99.1	5.56	1,964.3	+5.1	+ 7.8	+ 10.8
Singapore	1.67	1.71	3.04	2.13	2,176.9	+0.8	+ 5.4	+ 2.8
South Korea	1,011	1,165	1,835	3.52	969.5	+3.0	+ 8.2	+ 10.9
Taiwan	31.4	33.4	57.1	1.40	5,971.6	+1.4	- 2.7	- 2.0
Thailand	40.7	40.6	73.9	2.65	667.5	+1.1	- 0.1	- 4.7
Argentina	2.88	2.96	5.23	5.69	1,516.2	+4.0	+ 10.2	+ 13.7
Brazil	2.43	3.13	4.41	19.76	25,948.0	+6.0	- 0.9	+ 8.4
Chile	587	642	1,065	3.96	9,248.3	+1.2	+ 3.2	- 2.2
Colombia	2,342	2,728	4,251	7.12	4,809.8	+1.4	+ 10.7	+ 11.2
Mexico	10.8	11.4	19.7	9.64	13,143.6	+0.7	+ 1.7	+ 4.6
Peru	3.25	3.49	5.91	3.00	3,961.2	+2.1	+ 6.8	+ 7.6
Venezuela	2,607§	2,951§	4,732	11.73	22,289.6	-1.7	- 25.6	- 26.4
Egypt	5.80	6.19	10.52	9.89	36,764.5	+0.8	+ 49.5	+ 56.6
Israel	4.42	4.55	8.02	3.61	699.1	+1.0	+ 8.6	+ 6.1
South Africa	6.86	6.46	12.5	7.05	13,859.5	+2.9	+ 9.5	- 10.1
Czech Republic	24.8	25.6	45.0	1.76	1,158.5	+3.3	+ 12.3	+ 1.2
Hungary	207	205	375	7.28	17,137.4	+3.0	+ 16.2	+ 1.6
Poland	3.37	3.80	6.12	5.28	26,499.2	+0.8	- 0.5	- 11.6
Russia	28.4	29.0	51.5	13.00	667.1‡	-0.3	+ 11.2	+ 8.6
Turkey	1.36	1.51	2.46	16.66	25,230.8	+4.6	+ 1.0	+ 0.5
EM (MSCI)*	1.00	1.00	1.82	na	546.6	+0.6	+ 0.8	+ 0.8
EMBI+†	1.00	1.00	1.82	na	343.2	+1.2	+ 4.1	+ 4.1

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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